H.R. 429, A BILL TO INSTITUTE A "DEFICIT REDUCTION" CHECK-OFF BOX ON INDIVIDUAL INCOME TAX RETURNS

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SUBCOMMITTEE ON SELECT REVENUE MEASURES

OF THE

COMMITTEE ON WAYS AND MEANS

HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRD CONGRESS

FIRST SESSION

ON

H.R. 429

TO AMEND THE INTERNAL REVENUE CODE OF 1986 TO ALLOW INDIVIDUALS TO DESIGNATE THAT UP TO 10 PERCENT OF THEIR INCOME TAX LIABILITY BE USED TO REDUCE THE NATIONAL DEBT, AND TO REQUIRE SPENDING REDUCTIONS EQUAL TO THE AMOUNTS SO DESIGNATED

NOVEMBER 16, 1993

Serial 103–44

Printed for the use of the Committee on Ways and Means

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H.R. 429, A BILL TO INSTITUTE A DEFICIT REDUCTION CHECK-OFF BOX ON INDIVIDUAL INCOME TAX RETURNS

TUESDAY, NOVEMBER 16, 1993

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON SELECT REVENUE MEASURES,
Washington, D.C.

The subcommittee met, pursuant to call, at 3:07 p.m., in room B–318, Rayburn House Office Building, Hon. Charles B. Rangel (chairman of the subcommittee) presiding.

[The press release announcing the hearing and the text of H.R. 429 follow:]

FOR IMMEDIATE RELEASE
TUESDAY, NOVEMBER 9, 1993

PRESS RELEASE #15
SUBCOMMITTEE ON SELECT REVENUE MEASURES
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
1102 LONGWORTH HOUSE OFFICE BLDG.
WASHINGTON, D.C. 20515
(202) 225-1721

THE HONORABLE CHARLES B. RANGEL (D., N.Y.), CHAIRMAN, SUBCOMMITTEE ON SELECT REVENUE MEASURES, COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES ANNOUNCES A PUBLIC HEARING ON H.R. 429, A BILL TO INSTITUTE A "DEFICIT REDUCTION" CHECK-OFF BOX ON INDIVIDUAL INCOME TAX RETURNS

The Honorable Charles B. Rangel (D., N.Y.), Chairman, Subcommittee on Select Revenue Measures, Committee on Ways and Means, U.S. House of Representatives, today announced a public hearing on H.R. 429, a bill to institute a "deficit reduction" check-off box on individual income tax returns. The hearing will be held on Tuesday, November 16, 1993, beginning at 3:00 p.m. in Room B-318, Rayburn House Office Building.

The Subcommittee will hear testimony from invited and public witnesses.

BACKGROUND

H.R. 429 was introduced by Congressman Robert B. Walker (R., Pa.). The bill would require the Internal Revenue Service to revise individual income tax forms to include a check-off box so that taxpayers could voluntarily designate that the Federal deficit be reduced by an amount equal to as much as 10 percent of their income tax liability. The Department of the Treasury would be required to compute and report to Congress the total amount designated by individual taxpayers. The bill would also create a new trust fund in the Treasury, the "Public Debt Reduction Trust Fund", into which an amount equal to the total amount designated by taxpayers would be transferred from the general fund. H.R. 429 would accomplish deficit reduction in the amount designated by requiring across-the-board cuts in all Federal discretionary and many direct spending programs.

The Subcommittee invites testimony on all aspects of H.R. 429, including the effectiveness of reducing the deficit in this manner, the policy implications of cutting government spending programs on the basis of a voluntary income-related designation, the potential effects on the budget process and on legislative decisionmaking, the expected participation in the deficit-reduction check-off program in light of actual participation in other tax check-off programs, and the administrability of check-off programs.

DETAILS FOR SUBMISSION OF REQUESTS TO BE HEARD:

Individuals and organizations interested in presenting oral testimony before the Subcommittee must submit their requests to be heard by telephone to Harriett Lawler, Diane Kirkland, or Karen Ponzurick [(202) 225-1721] no later than **noon, Friday, November 12, 1993,** to be followed by a formal written request to Janice Mays, Chief Counsel and Staff Director, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. The Subcommittee staff will notify by telephone those scheduled to appear as soon as possible after the filing deadline. Any questions concerning a scheduled appearance should be directed to the Subcommittee [(202) 225-9710].

Persons and organizations having a common position are urged to make every effort to designate one spokesperson to represent them in order for the Subcommittee to hear as many points of view as possible. Time for oral presentations will be strictly limited with the understanding that a more detailed statement may be included in the printed record of the hearing (see formatting requirements below). This process will afford more time for Members to question witnesses. In addition, witnesses may be grouped as panelists with strict time limitations for each panelist.

(MORE)

In order to assure the most productive use of the limited amount of time available to question hearing witnesses, all witnesses scheduled to appear before the Subcommittee are required to submit 200 copies of their prepared statements to the Subcommittee office, room 1105 Longworth House Office Building, at least 24 hours in advance of their scheduled appearance. Failure to comply with this requirement may result in the witness being denied the opportunity to testify in person.

WRITTEN STATEMENTS IN LIEU OF PERSONAL APPEARANCE:

Persons submitting written statements for the printed record of the hearing should submit at least six (6) copies by the close of business on **Tuesday, November 30, 1993**, to Janice Mays, Chief Counsel and Staff Director, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing written statements for the record of the printed hearing wish to have their statements distributed to the press and the interested public, they may provide 100 additional copies for this purpose to the Subcommittee office, room 1105 Longworth House Office Building, before the hearing begins.

FORMATTING REQUIREMENTS:

Each statement presented for printing to the Committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee:

1. **All statements and any accompanying exhibits for printing must be typed in single space on legal-size paper and may not exceed a total of 10 pages.**

2. **Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.**

3. **Statements must contain the name and capacity in which the witness will appear or, for written comments, the name and capacity of the person submitting the statement, as well as any clients or persons, or any organization for whom the witness appears or for whom the statement is submitted.**

4. **A supplemental sheet must accompany each statement listing the name, full address, a telephone number where the witness or the designated representative may be reached and a topical outline or summary of the comments and recommendations in the full statement. This supplemental sheet will not be included in the printed record.**

The above restrictions and limitations apply only to material submitted for printing. Statements and exhibits or supplementary material submitted solely for distribution to the Members, the press and the public during the course of a public hearing may be submitted in other forms.

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103d CONGRESS
1st Session

H. R. 429

To amend the Internal Revenue Code of 1986 to allow individuals to designate that up to 10 percent of their income tax liability be used to reduce the national debt, and to require spending reductions equal to the amounts so designated.

IN THE HOUSE OF REPRESENTATIVES

January 5, 1993

Mr. Walker (for himself, Mr. Gingrich, Mr. Barton of Texas, Mr. Bliley, Mr. Camp, Mr. Coble, Mr. Crapo, Mr. Doolittle, Mr. Dornan, Mr. Ewing, Mr. Fawell, Mr. Gekas, Mr. Goss, Mr. Hancock, Mr. Hefley, Mr. Kingston, Mr. Kolbe, Mr. Lewis of Florida, Mr. McCollum, Mr. Nussle, Mr. Oxley, Mr. Packard, Mr. Ravenel, Mr. Rohrabacher, Mr. Santorum, Mr. Thomas of Wyoming, Mr. Upton, Mr. Zeliff, and Mr. Zimmer) introduced the following bill; which was referred jointly to the Committees on Ways and Means and Government Operations

---

A BILL

To amend the Internal Revenue Code of 1986 to allow individuals to designate that up to 10 percent of their income tax liability be used to reduce the national debt, and to require spending reductions equal to the amounts so designated.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Taxpayer Debt Buy-Down Act".

SEC. 2. DESIGNATION OF AMOUNTS FOR REDUCTION OF PUBLIC DEBT.

(a) IN GENERAL.—Subchapter A of chapter 61 of the Internal Revenue Code of 1986 (relating to returns and records) is amended by adding at the end the following new part:

"PART IX—DESIGNATION FOR REDUCTION OF PUBLIC DEBT.

"SEC. 6097. DESIGNATION.

"(a) IN GENERAL.—Every individual with adjusted income tax liability for any taxable year may designate that a portion of such liability (not to exceed 10 percent thereof) shall be used to reduce the public debt.

"(b) MANNER AND TIME OF DESIGNATION.—A designation under subsection (a) may be made with respect to any taxable year only at the time of filing the return of tax imposed by chapter 1 for the taxable year. The designation shall be made on the first page of the return or on the page bearing the taxpayer's signature.

"(c) ADJUSTED INCOME TAX LIABILITY.—For purposes of this section, the term 'adjusted income tax liability' means income tax liability (as defined in section

6096(b)) reduced by any amount designated under section 6096 (relating to designation of income tax payments to Presidential Election Campaign Fund)."

(b) CLERICAL AMENDMENT.—The table of parts for such subchapter A is amended by adding at the end the following new item:

"Part IX. Designation for reduction of public debt."

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years ending after the date of the enactment of this Act.

SEC. 3. PUBLIC DEBT REDUCTION TRUST FUND.

(a) IN GENERAL.—Subchapter A of chapter 98 of the Internal Revenue Code of 1986 (relating to trust fund code) is amended by adding at the end the following section:

"SEC. 9512. PUBLIC DEBT REDUCTION TRUST FUND.

"(a) CREATION OF TRUST FUND.—There is established in the Treasury of the United States a trust fund to be known as the 'Public Debt Reduction Trust Fund', consisting of any amount appropriated or credited to the Trust Fund as provided in this section or section 9602(b).

"(b) TRANSFERS TO TRUST FUND.—There are hereby appropriated to the Public Debt Reduction Trust Fund amounts equivalent to the amounts designated under section 6097 (relating to designation for public debt reduction).

"(c) EXPENDITURES.—Amounts in the Public Debt Reduction Trust Fund shall be available only for purposes of paying at maturity, or to redeem or buy before maturity, any obligation of the Federal Government included in the public debt. Any obligation which is paid, redeemed, or bought with amounts from such Trust Fund shall be canceled and retired and may not be reissued."

(b) CLERICAL AMENDMENT.—The table of sections for such subchapter is amended by adding at the end the following new item:

"Sec. 9512. Public Debt Reduction Trust Fund."

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to amounts received after the date of the enactment of this Act.

SEC. 4. TAXPAYER-GENERATED SEQUESTRATION OF FEDERAL SPENDING TO REDUCE THE PUBLIC DEBT.

(a) SEQUESTRATION TO REDUCE THE PUBLIC DEBT.—Part C of the Balanced Budget and Emergency Deficit Control Act of 1985 is amended by adding after section 253 the following new section:

"SEC. 253A. SEQUESTRATION TO REDUCE THE PUBLIC DEBT.

"(a) SEQUESTRATION.—Notwithstanding sections 255 and 256, within 15 days after Congress adjourns to end a session, and on the same day as sequestration (if

any) under sections 251, 252, and 253, but after any sequestration required by those sections, there shall be a sequestration equivalent to the estimated aggregate amount designated under section 6097 of the Internal Revenue Code of 1986 for the last taxable year ending before the beginning of that session of Congress, as estimated by the Department of the Treasury on May 1 and as modified by the total of (1) any amounts by which net discretionary spending is reduced by legislation below the discretionary spending limits (or, in the absence of such limits, any net deficit change from the baseline amount calculated under section 257, except that such baseline for fiscal year 1996 and thereafter shall be based upon fiscal year 1995 enacted appropriations less any 1995 sequesters) and (2) the net deficit change that has resulted from direct spending legislation.

"(b) APPLICABILITY.—

"(1) IN GENERAL.—Except as provided by paragraph (2), each account of the United States shall be reduced by a dollar amount calculated by multiplying the level of budgetary resources in that account at that time by the uniform percentage necessary to carry out subsection (a). All obligational authority reduced under this section shall be done in a manner that makes such reductions permanent.

"(2) EXEMPT ACCOUNTS.—No order issued under this part may—

"(A) reduce benefits payable the old-age, survivors, and disability insurance program established under title II of the Social Security Act;

"(B) reduce payments for net interest (all of major functional category 900); or

"(C) make any reduction in the following accounts:

"Federal Deposit Insurance Corporation, Bank Insurance Fund;

"Federal Deposit Insurance Corporation, FSLIC Resolution Fund;

"Federal Deposit Insurance Corporation, Savings Association Insurance Fund;

"National Credit Union Administration, credit union share insurance fund; or

"Resolution Trust Corporation.".

(b) REPORTS.—Section 254 of the Balanced Budget and Emergency Deficit Control Act of 1985 is amended—

(1) in subsection (a), by inserting before the item relating to August 10 the following:

"May 1 . . . Department of Treasury report to Congress estimating amount of income tax designated pursu-

ant to section 6097 of the Internal Revenue Code of 1986.";

(2) in subsection (d)(1), by inserting ", and sequestration to reduce the public debt,";

(3) in subsection (d), by redesignating paragraph (5) as paragraph (6) and by inserting after paragraph (4) the following new paragraph:

"(5) SEQUESTRATION TO REDUCE THE PUBLIC DEBT REPORTS.—The preview reports shall set forth for the budget year estimates for each of the following:

"(A) The aggregate amount designated under section 6097 of the Internal Revenue Code of 1986 for the last taxable year ending before the budget year.

"(B) The amount of reductions required under section 253A and the deficit remaining after those reductions have been made.

"(C) The sequestration percentage necessary to achieve the required reduction in accounts under section 253A(b)."; and

(4) in subsection (g), by redesignating paragraphs (4) and (5) as paragraphs (5) and (6), respectively, and by inserting after paragraph (3) the following new paragraph:

"(4) SEQUESTRATION TO REDUCE THE PUBLIC DEBT REPORTS.—The final reports shall contain all of the information contained in the public debt taxation designation report required on May 1.".

(c) EFFECTIVE DATE.—Notwithstanding section 275(b) of the Balanced Budget and Emergency Deficit Control Act of 1985, the expiration date set forth in that section shall not apply to the amendments made by this section. The amendments made by this section shall cease to have any effect after the first fiscal year during which there is no public debt.

Chairman RANGEL. The Select Revenue Committee will come to order.

This afternoon, the Subcommittee on Select Revenue Measures will be holding a hearing on H.R. 429, a bill to institute a deficit reduction checkoff box on individual income tax returns introduced by our friend, Congressman Robert Walker of Pennsylvania. A companion bill was introduced in the Senate by Senator Robert Smith of New Hampshire.

The Federal deficit is a fiscal and economic problem that concerns us all. Current projections of both the Administration and the Congressional Budget Office indicate that the deficit will go down significantly as a result of the President's Omnibus Budget Reconciliation Act enacted this summer. Nevertheless, the deficit will stay stubbornly at about $200 billion during the later years.

H.R. 429 is an attempt to reduce the deficit by automatic across-the-board cuts in Federal spending totalling amounts designated by taxpayers on their tax forms.

The proposal will affect the Internal Revenue Service. It would affect tax filers and nonfilers differently. It would affect taxpayers of different income levels differently and, of course, it would affect the recipients of the Federal programs that would be cut by the automatic sequester.

The subcommittee is examining all of these possible effects of H.R. 429 as well as the impact it would have or could have on Federal decisionmaking. So we do hope that our witnesses this afternoon would share with us their views of possible impacts and the various effects that this bill would have if it is reported out and passed into law.

I yield to my friend the distinguished ranking Republican, Mr. Hancock.

Mr. HANCOCK. Thank you, Mr. Chairman.

I am proud to be a cosponsor of the legislation that we have before us today, so I commend you for holding this hearing.

The failures of our Nation's fiscal problems are staggering. Earlier this spring the tax foundation reported that the gross debt burden for every man, woman, and child in the United States has grown to nearly $16,000.

Further, the Congressional Budget Office projects that the Federal public debt will grow at 8.6 percent per year over the next 10 years. This sounds pretty incredible but even more unbelievable is that despite this gloomy forecast Congress still does not have a budget mechanism that will put the growth in reverse. This is not to say that Congress hasn't tried to change. We have been on one budget diet after another since the mid-1970s. But like most diets, we are soon back to where we started or even more bloated.

Take, for example, the 1993 Omnibus Budget Reconciliation Act. It was the largest tax increase in history, some $241 billion. Of course, as usual, the taxes came first and we got the problems of spending cuts in the future. Even with all of these new tax revenues, our public debt is still expected to rise from approximately $4.5 trillion to $7.5 trillion by the year 2003. It is imperative that we get a handle on our finances. We owe it to the future generations of this country.

Bob Walker and Senator Bob Smith have proposed an excellent approach for our Nation's devastating debt and, more importantly, it will work.

Welcome to our subcommittee. We are anxious to hear from you as well as from whatever invited guests we might have. Thank you, Mr. Chairman.

Chairman RANGEL. We will head off with Congressman Walker. And after he concludes, we will hear from Senator Smith. And then, of course, we will have some questions.

STATEMENT OF HON. ROBERT S. WALKER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF PENNSYLVANIA

Mr. WALKER. Thank you, Mr. Chairman.

I want to begin by thanking you and the members of the committee for holding this hearing on what I think is a reasonably innovative approach to deficit and debt reduction. I am pleased to have the opportunity to discuss this bill with you today and of course would be happy to respond to questions.

This is both I think an effective and innovative plan to cut the runaway Federal budget deficit and reduce the $3.5 trillion national debt.

As I will discuss in my testimony, H.R. 429, the Taxpayer Debt Buy-Down Act, is more than a deficit reduction plan. It is a revolutionary attempt to bring the American taxpayer directly into the budget process; a plan that will give taxpayers the power they need to participate in controlling Federal spending. In fact, if passed, this legislation would be a referendum every April 15 on Federal expenditures.

There is much confusion about how this relatively modest idea works. Allow me to briefly summarize it. When passed, the bill would give taxpayers the option of voluntarily designating up to 10 percent of their income tax liability—not their refund, but their liability—to a public debt reduction fund managed by the Department of the Treasury. This fund would be earmarked strictly for buying back the national debt.

On May 1 of each year, the Treasury Department would be required to provide Congress with an estimate of the total amount designated by the taxpayers for debt reduction. Congress would have, from the time of the report in May, until the end of September to find spending cuts in any and all budgetary accounts. If the Congress failed to enact spending cuts equaling the amount designated by the taxpayers, an across-the-board sequester of all accounts except Social Security, interest on the debt and deposit insurance, would be imposed. This sequester would permanently reduce the budget baseline as would any spending cuts enacted by the Congress.

A lot of controversy and misinformation has arisen about this last point. Dire predictions have been made about the collapse of the government under the severity of these cuts. Those predictions are nonsense. I would like to point out that, even with maximum taxpayer participation, outlays would continue to increase according to the CBO estimates. Government spending would grow by almost 10 percent during the time we are collapsing the debt to zero in a period of 15 years. How can someone predict the collapse of

the government on funding levels which are higher than those we have today? Spending priorities would have to be reallocated and government nonessentials would have to be eliminated, but there would be plenty of money to do the necessary work of the national government.

Another added benefit of direct taxpayer involvement is that necessary spending cuts would be required by the American people and would bypass special interest pleadings. Therefore, the burden of trying to sell various cuts would be removed from Congress, for Congress would only be doing what the American people specifically asked it to do. This would be of immeasurable benefit in the legislative process. A constituency of millions of voters who want spending cuts would be formulated each April.

I am thankful to the growing number of organizations and individuals who endorsed H.R. 429: Lawrence Kudlow, Chief Economist at Bear Stearns; and Norm Ture, President of the Institute for the Research on the Economics of Taxation, who is among those who are presenting testimony or will submit testimony to this subcommittee; Citizens Against Government Waste, the National Taxpayers Union, and Citizens for a Sound Economy are all supporting this legislation.

Ninety-four Members of the House have already cosponsored this bill and Senator Bob Smith, who sits here with me today, has introduced a companion bill in the U.S. Senate.

Mr. Chairman, Members of Congress, numerous budget experts and an array of taxpayer advocacy organizations support the Taxpayer Debt Buy-Down Act for one reason. They recognize that a ballooning national debt is mortgaging our Nation's future and the livelihoods of our children and grandchildren.

A deeply divided House and Senate struggled for months before President Clinton's economic package finally passed but Members should keep in mind that even after imposing $255 billion in new taxes and fees on the American people and cutting defense spending massively, the national debt will still increase by more than $1 trillion over the next 5 years.

Mr. Chairman, the growing problem of national debt is the most powerful argument for taking the corrective step embodied in H.R. 429. If you need assurance this plan can do the job, then you ought to look at what we have asked both the Office of Management and Budget and the Congressional Budget Office to do. I asked them to estimate the impact of the debt buy-down on the national debt. OMB ran the numbers out to fiscal year 2009; CBO to 2003. The results are quite close and therefore can be regarded as parallel.

CBO's trend line agrees with the OMB projections which show that if the debt buy-down worked optimally, the budget would be balanced by fiscal year 1999. The debt would be zeroed out by fiscal year 2009. Compare that with the problem we face under current circumstances. On our current plan, the debt will exceed $13 trillion by fiscal year 2009. Interest alone will be in the billions of dollars each year and the options for meeting real national needs will be severely limited.

You can see on the charts over here where we reduce red ink in slashing the deficit. Now I would point out those are based on the

former CBO estimates. Just within the last hour, I have received a new update where the trend line is even better from the perspective of both balancing the budget and getting rid of the debt. So I think you have available to you now that new CBO estimate, but this does give you some idea of the trend lines.

Chairman RANGEL. That is based on assumptions that you made in terms of the hypothetical that was turned over to you?

Mr. WALKER. That is based, Mr. Chairman, on optimal performance, that is, every taxpayer participating at the maximum of 10 percent. And the reason why we did that is it is very difficult to say just what else to do. I would be happy, for example, to have CBO take some of the numbers that have been generated in national polling data about how many people would participate and at what level they participate and begin to do some runs on that, because we——

Chairman RANGEL. Did you request that?

Mr. WALKER [continuing]. Do have some trends along that line.

I have not because the problem that I have had thus far, unless it is a part of a real proposal that is moving forward, it is one of those things that CBO regards as kind of an option. But if this committee was prepared to move forward legislation or if it becomes a part of a real budget option, it seems to me that those are figures that we want to have. That would obviously extend the trend lines out further. It would obviously create less of a reduction in spending, but I think the trend lines would end up being the same, although over a longer period of time.

President Clinton inched toward the concept of debt buy-down with his deficit trust fund proposal. By establishing a parking place for debt reduction at the U.S. Treasury, the President acknowledged the need for an accounting tool to assure the public that deficit reduction money was truly going to deficit reduction.

But the President's fund has no legs beyond its accounting cleverness. For debt and deficits to be reduced, the spending cut and sequestration mechanism of H.R. 429 are needed. Only then can CBO and OMB score real savings.

Several other points should be noted for a full understanding of H.R. 429. Tax increases cannot be used to offset the spending cut demands made by taxpayers each year. While Congress would still be permitted to raise taxes for other reasons, tax revenues would not count against the baseline reductions required by the buy-down plan. And, any tax increases on personal income would have the effect of giving the taxpayers more of a liability against which to require spending cuts.

There has been some public reaction to the debt buy-down concept and that reaction has been highly positive. President Bush's endorsement of this idea at last year's Republican National Convention led pollsters to gauge public opinion. A poll done for the Bush campaign showed 66 percent of Americans supported this new idea in the summer of 1992. Public support increased to 75 percent in a national opinion ballot done in December 1992. Most recently, in June of 1993, the National Federation of Independent Business found 77 percent of their membership favored the plan.

Debt buy-down has been included in a number of congressional initiatives. The fundamental Competitiveness Act contained debt

buy-down as one of its provisions. The Kasich budget debated on the Floor earlier this year contained a debt buy-down plan. And, Congressman Al McCandless sought to substitute H.R. 429 for the President's trust fund proposal when consideration took place before the House Government Operations Committee.

This hearing grew out of my attempt to offer the debt buy-down as an amendment to the budget. At that time, the House leadership determined that a more appropriate course of action would be to hold a hearing to examine the proposal before engaging in the House debate. I agreed fully with this suggestion and we are here today putting the facts about the proposal on the table and on the record. Hopefully, out of this hearing, you will recommend further action.

Taxpayer debt buy-down has several facets to appeal to you. The Congressional Budget Office has documented that optimal performance of this plan, as it is presently drafted, would reduce both future deficits and national debt.

Debt buy-down has public support. Between two-thirds and three-quarters of the American people who have been surveyed like the idea and most would participate if given a chance.

Debt buy-down takes the intractable issue of spending cuts outside the halls of Congress and into the households of the American people. They would have an opportunity not only to help decide how much cutting would be done, but they would have an opportunity to hold their Representatives accountable for acting or failing to act on their wishes. And at any time the American people began to believe the spending cuts had gone too deep, they would have an annual option of not asking for additional reductions.

Debt buy-down is a revolutionary approach to a growing problem. The national debt problem has grown so large that it defies tinkering around the margins. Real solutions are going to demand breakthrough ideas. The debt buy-down breaks through many of the problems connected with the debt and deficit by bypassing special interest pleadings for ever-larger budgets and giving a broad segment of the population a chance to register an antispending mandate each and every year.

Empty promises of fiscal responsibility are no longer adequate. Public discourse will demand real solutions. Only bold action will convince our constituents that we are finally putting our fiscal house in order. A bipartisan effort to pass the Debt Buy-Down Act and thereby deal with the twin towers of debt and deficit would be warmly received by the American people. You can begin that bipartisan effort by approving H.R. 429, and I thank you for listening to me today.

Chairman RANGEL. Thank you.

[The prepared statement follows:]

TESTIMONY BY
CONGRESSMAN ROBERT S. WALKER
BEFORE THE
HOUSE SUBCOMMITTEE ON SELECT REVENUE
OF THE
HOUSE COMMITTEE ON WAYS AND MEANS
ON
H.R. 429, THE TAXPAYER DEBT BUY-DOWN ACT
NOVEMBER 16, 1993

MR. CHAIRMAN, MR. HANCOCK, MEMBERS OF THE COMMITTEE: THANK YOU FOR THE OPPORTUNITY TO TESTIFY ON WHAT I BELIEVE IS AN EFFECTIVE, INNOVATIVE PLAN TO CUT THE RUNAWAY FEDERAL BUDGET DEFICIT AND REDUCE THE $3.5 TRILLION NATIONAL DEBT.

AS I WILL DISCUSS IN MY TESTIMONY, H.R. 429, THE TAXPAYER DEBT BUY-DOWN ACT, IS MORE THAN A DEFICIT REDUCTION PLAN. IT IS A REVOLUTIONARY ATTEMPT TO BRING THE AMERICAN TAXPAYER DIRECTLY INTO THE BUDGET PROCESS; A PLAN THAT WILL GIVE TAXPAYERS THE POWER THEY NEED TO PARTICIPATE IN CONTROLLING FEDERAL SPENDING. IN FACT, IF PASSED, THIS LEGISLATION WOULD BE A REFERENDUM EVERY APRIL 15 ON FEDERAL EXPENDITURES.

THERE IS MUCH CONFUSION ABOUT HOW THIS RELATIVELY MODEST IDEA WORKS. ALLOW ME TO BRIEFLY SUMMARIZE IT. WHEN PASSED, THE BILL WOULD GIVE TAXPAYERS THE OPTION OF VOLUNTARILY DESIGNATING UP TO 10% OF THEIR INCOME TAX LIABILITY--NOT THEIR REFUND, BUT THEIR LIABILITY--TO A PUBLIC DEBT REDUCTION FUND MANAGED BY THE DEPARTMENT OF THE TREASURY. THIS FUND WOULD BE EARMARKED STRICTLY FOR BUYING BACK THE NATIONAL DEBT.

ON MAY 1ST OF EACH YEAR, THE TREASURY DEPARTMENT WOULD BE REQUIRED TO PROVIDE CONGRESS WITH AN ESTIMATE OF THE TOTAL AMOUNT DESIGNATED BY THE TAXPAYERS FOR DEBT REDUCTION. CONGRESS WOULD HAVE, FROM THE TIME OF THE REPORT IN MAY, UNTIL THE END OF SEPTEMBER TO FIND SPENDING CUTS IN ANY AND ALL BUDGETARY ACCOUNTS. IF CONGRESS FAILED TO ENACT SPENDING CUTS EQUALING THE AMOUNT DESIGNATED BY THE TAXPAYERS, AN ACROSS-THE-BOARD SEQUESTER OF ALL ACCOUNTS EXCEPT SOCIAL SECURITY, INTEREST ON THE DEBT AND DEPOSIT INSURANCE, WOULD BE IMPOSED. THIS SEQUESTER WOULD PERMANENTLY REDUCE THE BUDGET BASELINE AS WOULD ANY SPENDING CUTS ENACTED BY CONGRESS.

A LOT OF CONTROVERSY AND MISINFORMATION HAS ARISEN ABOUT THIS LAST POINT. DIRE PREDICTIONS HAVE BEEN MADE ABOUT THE COLLAPSE OF GOVERNMENT UNDER THE SEVERITY OF THESE CUTS. THOSE PREDICTIONS ARE NONSENSE! I WOULD LIKE TO POINT OUT THAT, EVEN WITH MAXIMUM TAXPAYER PARTICIPATION, OUTLAYS WOULD CONTINUE TO INCREASE ACCORDING TO THE CBO ESTIMATES. GOVERNMENT SPENDING WOULD GROW BY ALMOST 10% DURING THE TIME WE ARE COLLAPSING THE DEBT TO ZERO IN 15 YEARS. HOW CAN SOMEONE PREDICT THE COLLAPSE OF THE GOVERNMENT ON FUNDING LEVELS WHICH ARE HIGHER THAN THOSE WE HAVE TODAY? SPENDING PRIORITIES WOULD HAVE TO BE REALLOCATED AND GOVERNMENT NON-ESSENTIALS WOULD HAVE TO BE ELIMINATED, BUT THERE WOULD BE PLENTY OF MONEY TO DO THE NECESSARY WORK OF NATIONAL GOVERNMENT.

ANOTHER, ADDED BENEFIT OF DIRECT TAXPAYER INVOLVEMENT IS THAT NECESSARY SPENDING CUTS WOULD BE REQUIRED BY THE AMERICAN PEOPLE AND WOULD BYPASS SPECIAL INTEREST PLEADING. THEREFORE, THE BURDEN OF TRYING TO "SELL" VARIOUS CUTS WOULD BE REMOVED FROM CONGRESS, FOR CONGRESS WOULD ONLY BE DOING WHAT THE AMERICAN PEOPLE SPECIFICALLY ASKED IT TO DO. THIS WOULD BE OF IMMEASURABLE BENEFIT IN THE LEGISLATIVE PROCESS. A CONSTITUENCY OF MILLIONS OF VOTERS WHO WANT SPENDING CUTS WOULD BE FORMULATED EACH APRIL.

I AM THANKFUL TO THE GROWING NUMBER OF ORGANIZATIONS AND INDIVIDUALS WHO HAVE ENDORSED H.R. 429. LAWRENCE KUDLOW, CHIEF ECONOMIST AT BEAR STEARNS; AND NORM TURE, PRESIDENT OF THE INSTITUTE FOR THE RESEARCH ON THE ECONOMICS OF TAXATION, ARE HERE

TODAY TO PROVIDE THEIR EXPERT TESTIMONY ON H.R. 429'S POTENTIAL ECONOMIC IMPACT. CITIZENS AGAINST GOVERNMENT WASTE, THE NATIONAL TAXPAYERS UNION, AND CITIZENS FOR A SOUND ECONOMY ARE ALL SUPPORTING THIS LEGISLATION.

NINETY-THREE MEMBERS OF THE HOUSE HAVE ALREADY COSPONSORED THIS BILL, AND SENATOR BOB SMITH HAS INTRODUCED A COMPANION BILL, S.449, WHICH HE IS VIGOROUSLY PURSUING IN THE UNITED STATES SENATE.

MR. CHAIRMAN; MEMBERS OF CONGRESS, NUMEROUS BUDGET EXPERTS, AND AN ARRAY OF TAXPAYER ADVOCACY ORGANIZATIONS SUPPORT THE TAXPAYER DEBT BUY-DOWN ACT FOR ONE REASON: THEY RECOGNIZE THAT A BALLOONING NATIONAL DEBT IS MORTGAGING OUR NATION'S FUTURE AND THE LIVELIHOODS OF OUR CHILDREN AND GRANDCHILDREN.

A DEEPLY DIVIDED HOUSE AND SENATE STRUGGLED FOR MONTHS BEFORE PRESIDENT CLINTON'S ECONOMIC PACKAGE FINALLY PASSED. BUT MEMBERS SHOULD KEEP IN MIND THAT EVEN AFTER IMPOSING $255 BILLION IN NEW TAXES AND FEES ON THE AMERICAN PEOPLE AND CUTTING DEFENSE SPENDING MASSIVELY, THE NATIONAL DEBT WILL STILL INCREASE BY MORE THAN A TRILLION DOLLARS OVER THE NEXT FIVE YEARS.

MR. CHAIRMAN, THE GROWING PROBLEM OF NATIONAL DEBT IS THE MOST POWERFUL ARGUMENT FOR TAKING THE CORRECTIVE STEP EMBODIED IN H.R. 429. BUT YOU NEED ASSURANCE THAT THIS PLAN CAN DO THE JOB. THEREFORE, I ASKED BOTH THE OFFICE OF MANAGEMENT AND BUDGET AND THE CONGRESSIONAL BUDGET OFFICE TO ESTIMATE THE IMPACT OF THE DEBT BUY-DOWN PLAN ON THE NATIONAL DEBT. OMB RAN THE NUMBERS OUT TO FISCAL YEAR 2009; CBO TO 2003. THE RESULTS ARE QUITE CLOSE AND THEREFORE CAN BE REGARDED AS PARALLEL.

CBO'S TREND LINE AGREES WITH THE OMB PROJECTIONS WHICH SHOW THAT IF THE DEBT BUY-DOWN WORKED OPTIMALLY, THE BUDGET WOULD BE BALANCED BY FISCAL YEAR 1999. THE DEBT WOULD BE ZEROED OUT BY FISCAL YEAR 2009. COMPARE THAT WITH THE PROBLEM WE FACE UNDER CURRENT CIRCUMSTANCES. ON OUR CURRENT PATH, THE DEBT WILL EXCEED THIRTEEN TRILLION DOLLARS BY FY 2009! INTEREST ALONE WILL BE IN THE BILLIONS OF DOLLARS EACH YEAR AND THE OPTIONS FOR MEETING REAL NATIONAL NEEDS WILL BE SEVERELY LIMITED.

PRESIDENT CLINTON INCHED TOWARD THE CONCEPT OF DEBT BUY-DOWN WITH HIS DEFICIT TRUST FUND PROPOSAL. BY ESTABLISHING A PARKING PLACE FOR DEBT REDUCTION AT THE U.S. TREASURY, THE PRESIDENT ACKNOWLEDGED THE NEED FOR AN ACCOUNTING TOOL TO ASSURE THE PUBLIC THAT DEFICIT REDUCTION MONEY WAS TRULY GOING TO DEFICIT REDUCTION.

BUT THE PRESIDENT'S FUND HAS NO LEGS BEYOND ITS ACCOUNTING CLEVERNESS. FOR DEBT AND DEFICITS TO BE REDUCED, THE SPENDING CUT AND SEQUESTRATION MECHANISM OF H.R. 429 ARE NEEDED. ONLY THEN CAN CBO AND OMB SCORE REAL SAVINGS.

SEVERAL OTHER POINTS SHOULD BE NOTED FOR A FULL UNDERSTANDING OF H.R. 429. TAX INCREASES CANNOT BE USED TO OFFSET THE SPENDING CUT DEMANDS MADE BY TAXPAYERS EACH YEAR. WHILE CONGRESS WOULD STILL BE PERMITTED TO RAISE TAXES FOR OTHER REASONS, TAX REVENUES WOULD NOT COUNT AGAINST THE BASELINE REDUCTIONS REQUIRED BY THE BUY-DOWN PLAN. AND, ANY TAX INCREASES ON PERSONAL INCOME WOULD HAVE THE EFFECT OF GIVING TAXPAYERS MORE OF A LIABILITY AGAINST WHICH TO REQUIRE SPENDING CUTS.

THERE HAS BEEN SOME PUBLIC REACTION TO THE DEBT BUY-DOWN CONCEPT AND THAT REACTION HAS BEEN HIGHLY POSITIVE. PRESIDENT BUSH'S ENDORSEMENT OF THIS IDEA AT LAST YEAR'S REPUBLICAN NATIONAL CONVENTION LED POLLSTERS TO GAUGE PUBLIC OPINION. A POLL DONE FOR THE BUSH CAMPAIGN SHOWED 66% OF AMERICANS SUPPORTING THIS NEW IDEA IN THE SUMMER OF 1992. PUBLIC SUPPORT INCREASED TO 75% IN A NATIONAL OPINION BALLOT DONE IN DECEMBER 1992. MOST RECENTLY, IN JUNE, 1993, THE NATIONAL FEDERATION OF INDEPENDENT BUSINESS FOUND 77% OF THEIR MEMBERSHIP FAVORED THE PLAN.

DEBT BUY-DOWN HAS BEEN INCLUDED IN A NUMBER OF CONGRESSIONAL INITIATIVES. THE FUNDAMENTAL COMPETITIVENESS ACT CONTAINED DEBT BUY-DOWN AS ONE OF ITS PROVISIONS. THE KASICH BUDGET DEBATED ON THE FLOOR EARLIER THIS YEAR CONTAINED THE DEBT BUY-DOWN PLAN. AND, CONGRESSMAN AL MCCANDLESS SOUGHT TO SUBSTITUTE H.R. 429 FOR THE PRESIDENT'S TRUST FUND PROPOSAL WHEN CONSIDERATION TOOK PLACE BEFORE THE HOUSE GOVERNMENT OPERATIONS COMMITTEE.

THIS HEARING GREW OUT OF MY ATTEMPT TO OFFER THE DEBT BUY-DOWN AS AN AMENDMENT TO THE BUDGET. AT THAT TIME, THE HOUSE LEADERSHIP DETERMINED THAT A MORE APPROPRIATE COURSE OF ACTION WOULD BE TO HOLD A HEARING TO EXAMINE THE PROPOSAL BEFORE ENGAGING IN THE HOUSE DEBATE. I AGREED TO THAT SUGGESTION, AND WE ARE TODAY PUTTING THE FACTS ABOUT THE PROPOSAL ON THE TABLE AND ON THE RECORD. HOPEFULLY, OUT OF THIS HEARING, YOU WILL RECOMMEND FURTHER ACTION.

TAXPAYER DEBT BUY-DOWN HAS SEVERAL FACETS TO APPEAL TO YOU. THE CONGRESSIONAL BUDGET OFFICE HAS DOCUMENTED THAT OPTIMAL PERFORMANCE OF THIS PLAN, AS IT IS PRESENTLY DRAFTED, WOULD REDUCE BOTH FUTURE DEFICITS AND NATIONAL DEBT.

DEBT BUY-DOWN HAS PUBLIC SUPPORT. BETWEEN TWO-THIRDS AND THREE-QUARTERS OF THE AMERICAN PEOPLE WHO HAVE BEEN SURVEYED LIKE THE IDEA AND MOST WOULD PARTICIPATE IF GIVEN A CHANCE.

DEBT BUY-DOWN TAKES THE INTRACTABLE ISSUE OF SPENDING CUTS OUTSIDE THE HALLS OF CONGRESS AND INTO THE HOUSEHOLDS OF THE AMERICAN PEOPLE. THEY WOULD HAVE AN OPPORTUNITY NOT ONLY TO HELP DECIDE HOW MUCH CUTTING WOULD BE DONE, BUT THEY WOULD HAVE AN OPPORTUNITY TO HOLD THEIR REPRESENTATIVES ACCOUNTABLE FOR ACTING OR FAILING TO ACT ON THEIR WISHES. AND AT ANY TIME THE AMERICAN PEOPLE BEGAN TO BELIEVE THE SPENDING CUTS HAD GONE TOO DEEP, THEY WOULD HAVE AN ANNUAL OPTION OF NOT ASKING FOR ADDITIONAL REDUCTIONS.

DEBT BUY-DOWN IS A REVOLUTIONARY APPROACH TO A GROWING PROBLEM. THE NATIONAL DEBT PROBLEM HAS GROWN SO LARGE THAT IT DEFIES TINKERING AROUND THE MARGINS. REAL SOLUTIONS ARE GOING TO DEMAND BREAK-THROUGH IDEAS. THE DEBT BUY-DOWN BREAKS THROUGH MANY OF THE PROBLEMS CONNECTED WITH THE DEBT AND DEFICIT BY BYPASSING SPECIAL INTEREST PLEADINGS FOR EVER-LARGER BUDGETS AND GIVING A BROAD SEGMENT OF THE POPULATION A CHANCE TO REGISTER AN ANTI-SPENDING MANDATE EACH AND EVERY YEAR.

EMPTY PROMISES OF FISCAL RESPONSIBILITY ARE NO LONGER ADEQUATE. PUBLIC DISCOURSE WILL DEMAND REAL SOLUTIONS. ONLY BOLD ACTION WILL CONVINCE OUR CONSTITUENTS THAT WE ARE FINALLY PUTTING OUR FISCAL HOUSE IN ORDER. A BIPARTISAN EFFORT TO PASS THE DEBT BUY-DOWN ACT, AND THEREBY DEAL WITH THE TWIN TOWERS OF DEBT AND DEFICIT, WOULD BE WARMLY RECEIVED. YOU CAN BEGIN THAT BIPARTISAN EFFORT BY APPROVING H.R. 429. THANK YOU.

Chairman RANGEL. Welcome, Senator Smith, to the Committee on Ways and Means of the House of Representatives. We look forward to your testimony.

STATEMENT OF HON. ROBERT C. SMITH, A U.S. SENATOR FROM THE STATE OF NEW HAMPSHIRE

Senator SMITH. Thank you very much, Mr. Chairman.

I appreciate the invitation and the opportunity to testify on this legislation and to address the committee. I am the Senator sponsor of the Walker legislation here in the House, S. 449.

There are eight Senate cosponsors at the moment, and I am proud to join Congressman Walker in this effort because I think the American people are very much interested in seeing deficits reduced, and there has been a lot of expressed opposition to this plan by many interest groups and probably the reason for that is because it will work. There are no gimmicks here. I mean, this will work. I would ask unanimous consent that a complete statement be entered in the record.

Chairman RANGEL. Without objection.

Senator SMITH. I will just summarize my statement.

I will try to fill in a few of the things that Congressman Walker has already addressed here so I don't repeat too much, but essentially, as you know, it amends the IRS code to allow the taxpayers of the United States the opportunity to voluntarily, and I think that is the key word, voluntarily designate up to, not more than but up to, 10 percent of their income tax liability for the purpose of deficit reduction and the collected amount designated by the taxpayers would be placed in this national debt reduction fund which is established in the Treasury.

I was somewhat surprised to find out that there was no such item in the budget so that we could have a place to retire the debt, which may be a statement in and of itself.

Congress would then have until the end of the session to find corresponding spending cuts. If Congress and the President failed to enact the requisite spending reductions, then an across-the-board sequester of all government accounts would occur, except for Social Security, deposit insurance and net interest. This is an across-the-board sequester only if Congress refuses to take the action. I think we can think of the Gramm-Rudman bill, only this time the American people are the ones who are making the chase in terms of the amount of money directly by their tax checkoff.

The budget baseline will be reduced by the amount of cut, thus lasting deficit reduction is assured. And this is the hammer. This is the provision that makes the 10 percent checkoff viable. Federal spending will be put on a steadily declining path, as you will see on those charts. The Taxpayer Debt Buy-Down Act would not increase anybody's taxes. We should all make that very clear. The taxpayer, for example, owes $5,000 in taxes, he or she can designate up to five, not more than $500 toward the debt or it can be $10, $100, $25, anything they wish up to the $500 if they owe $5,000. It comes out of the taxes that they are paying.

Nothing in this amendment would prohibit Congress from increasing taxes. However, tax hikes could not be used to substitute the spending cuts, as Congressman Walker has already indicated.

Some people have said that this 10 percent checkoff is a gimmick. Let me respond to that because I think that is a cheap shot on the legislation. If you think it is a gimmick, when April 15 comes around, don't check the box. Leave it blank. If you think it is a gimmick, that is your call. You are the taxpayer, all of us. If it is a gimmick, leave it blank. And my guess is that many Americans are going to decide to participate and those that think it is a gimmick can leave it blank. Those of us who don't, can check it off and Congress and the President will then get their marching orders from the American people.

I would say what have you lost. Can we at least put our faith in the American people to allow them to voluntarily make such a checkoff? That is not a gimmick. I believe what scares the opponents of the bill is they know the plan will work. It will work. And when the trust fund is established to pay down that debt, Congress is going to have to do what it has not been willing to do, which is to match the dollars that the taxpayers have checked off and actually reduce spending, which is something we have been loath to do around here.

I don't expect every taxpayer to check off the box and that is obvious, that is not going to happen. But I think many will and it might get contagious. This might just catch on. When the American people see that, they start reading the newspaper and they say we checked off $20 billion last year, $21 billion last year and they start talking about it in the workplace and in their homes, they may want to check off a little bit more next year when they actually see that this money is applied to the debt. As a matter of fact, I would go so far as to say many would be thrilled to see that it actually applied to the deficit and ultimately to the debt.

So the 10 percent checkoff will give us a national referendum on spending and the deficit every April 15. Every single April 15, we will get that referendum. Each and every year Congress will know beyond a shadow of a doubt how the American people feel about our fiscal situation. If we get into a situation where there is a crisis and somebody makes an appeal, whether it be Congressman Rangel or Senator Smith, who says, look, we have a national problem here, we are perhaps, hopefully not, but perhaps in a conflict someplace or there is some crisis, we could appeal to people not to check it off at that particular time.

It is entirely voluntary. There is no force on the part of the public.

Is this proposal controversial? Sure. I know that some Members feel across-the-board cuts are unfair but remember the across-the-board cuts only occur if Congress doesn't do what it should do which is to pick and choose and take the bad programs and eliminate them, reform where we need to reform. If you do that, there won't be an across-the-board sequester which is the same thing as we had in Gramm-Rudman.

It is an innovative proposal. It is not the kind of legislation we usually consider around here, but I might just say as you stop to think about the significance of this debt, which is going to be over $5 trillion by the time 1996 rolls around, maybe we need to try something innovative. Whatever we have been trying in the last 20

or 30 years hasn't been working. It is time to try something innovative and this is innovative.

Since we allow taxpayers to directly decide whether or not they want to help finance deficit spending by giving them the option of purchasing Treasury securities, for example, we give them that option, why can't we allow them to decide whether or not they want to directly finance deficit reduction by giving them the option of devoting a small portion of their tax liability to this deficit reduction trust fund?

So in conclusion, Mr. Chairman, I would say the American people deserve a chance to speak out with their tax dollars to designate them in a column that says reduce the debt; we will give you the number and go ahead and do make the cuts; we are not designating where those cuts will be, that is in the hands of Congress, but the Congress is being told by the people, here is how much we would like you to eliminate. Basically, they are then tackling a problem that we have been unwilling to tackle.

The key issue, in conclusion, Mr. Chairman, is that the American people, the public, make the decision on the amount. I thank you very much for having the opportunity, giving me the opportunity to testify today.

Chairman RANGEL. Thank you, Senator.

[The prepared statement follows:]

TESTIMONY BY
SENATOR ROBERT C. SMITH
BEFORE THE
SUBCOMMITTEE ON SELECT REVENUE MEASURES
OF THE
HOUSE COMMITTEE ON WAYS AND MEANS
ON
H.R. 429, THE TAXPAYER DEBT BUY DOWN ACT
NOVEMBER 16, 1993

MR. CHAIRMAN, MR. HANCOCK, MEMBERS OF THE COMMITTEE: THANK YOU FOR ALLOWING ME THE OPPORTUNITY TO SPEAK TODAY ABOUT THE TAXPAYER DEBT BUY DOWN ACT. AS YOU KNOW, I AM THE SENATE SPONSOR OF THIS BILL AND I AM PROUD TO JOIN CONGRESSMAN BOB WALKER IN THIS EFFORT TO INVOLVE THE AMERICAN PEOPLE IN SOMETHING ABOUT WHICH THEY CARE DEEPLY--THE FIGHT TO REDUCE DEFICITS AND PAY DOWN THE DEBT.

I WOULD LIKE TO GIVE A BRIEF EXPLANATION OF THE LEGISLATION AND WHY I THINK IT IS SO IMPORTANT. THIS LEGISLATION AMENDS THE IRS CODE TO ALLOW THE TAXPAYERS OF THE UNITED STATES THE OPPORTUNITY TO VOLUNTARILY DESIGNATE UP TO 10 PERCENT OF THEIR INCOME TAX LIABILITY FOR THE PURPOSE OF DEFICIT REDUCTION.

THIS IS A VOLUNTARY PROPOSAL. TAXPAYERS WILL BE ABLE TO CHECK OFF A BOX ON THEIR TAX RETURN THAT SAYS THAT THEY WANT 1 PERCENT, 2 PERCENT, 5 PERCENT, UP TO 10 PERCENT OF THEIR INCOME TAX LIABILITY TO BE APPLIED TO REDUCING THE DEFICIT AND RETIRING THE DEBT. THE COLLECTED AMOUNT DESIGNATED BY THE TAXPAYERS IN THIS PROCEDURE WOULD BE PLACED IN A NATIONAL DEBT REDUCTION FUND ESTABLISHED IN THE DEPARTMENT OF TREASURY.

CONGRESS WOULD THEN HAVE UNTIL THE END OF THE SESSION TO FIND CORRESPONDING SPENDING CUTS. IF CONGRESS, IN CONJUNCTION WITH THE PRESIDENT, FAILED TO ENACT THE REQUISITE SPENDING REDUCTIONS, AN ACROSS-THE-BOARD SEQUESTER OF ALL GOVERNMENT ACCOUNTS WOULD OCCUR--EXCEPT SOCIAL SECURITY, DEPOSIT INSURANCE, AND NET INTEREST. SO WE HAVE AN ACROSS-THE-BOARD SEQUESTER ONLY IF THE CONGRESS REFUSES TO TAKE ACTION.

THE SEQUESTER WOULD APPLY ONLY TO THE DESIGNATED AMOUNT OF SPENDING CUTS THAT CONGRESS FAILED TO ENACT. THUS, IF CONGRESS AND THE PRESIDENT ENACTED ONLY HALF OF THE NECESSARY CUTS, THE SEQUESTER WOULD ENSURE THE OTHER HALF. IF THEY ENACTED ALL, THERE WOULD BE NO SEQUESTER.

FURTHERMORE, THE BUDGET BASELINE WILL BE REDUCED BY THE AMOUNT OF THE CUT; THUS, LASTING DEFICIT REDUCTION IS ASSURED. AGAIN, THE CUTS WOULD PERMANENTLY REDUCE THE SPENDING BASELINE. AND IT IS THIS PROVISION THAT MAKES THE 10% CHECK-OFF VIABLE. WE WOULD NOT HAVE THE BASELINE EXPANDING EACH YEAR LIKE WE CURRENTLY DO. IF THE TAXPAYERS CHOOSE TO CUT SPENDING--WHICH I AM CONVINCED THEY WILL DO--FEDERAL SPENDING WILL BE PUT ON A STEADILY DECLINING PATH.

THE TAXPAYER DEBT BUY DOWN ACT WOULD NOT INCREASE ANYONE'S TAXES. I WANT TO MAKE THAT VERY CLEAR. IF A TAXPAYER OWES $5,000 IN TAXES, HE OR SHE CAN DESIGNATE UP TO $500 TOWARD THE DEBT, OR IT COULD BE $100, OR $10. IT IS THEIR CALL. IT JUST COMES OUT OF THE TAXES THEY ARE PAYING. IT IS NOT AN ADDITION.

WHILE NOTHING IN THIS AMENDMENT WOULD PROHIBIT CONGRESS FROM INCREASING TAXES, TAX HIKES COULD NOT BE USED TO SUBSTITUTE FOR THE SPENDING CUTS DESIGNATED BY THE TAXPAYERS. IF THE TAXPAYERS DESIGNATE $15 BILLION IN SPENDING CUTS AND CONGRESS RAISED $15 BILLION IN TAXES, THE SPENDING CUTS WOULD STILL HAVE TO BE MADE.

MR. CHAIRMAN, IN FEBRUARY, THE SENATE IS SCHEDULED TO TAKE UP THE BALANCED BUDGET AMENDMENT WHICH, I BELIEVE, WILL FINALLY PASS BOTH HOUSES OF CONGRESS. HOWEVER, EVEN IF WE PASS THE BALANCED BUDGET AMENDMENT IN THIS CONGRESS, BECAUSE IT HAS TO WIND ITS WAY THROUGH THE STATE RATIFICATION PROCESS, IT WILL BE YEARS BEFORE IT TAKES EFFECT. THE TAXPAYER DEBT BUY DOWN ACT IS A PERFECT COMPLEMENT TO THE BALANCED BUDGET AMENDMENT. PASSING THE TAXPAYER DEBT BUY DOWN ACT THIS YEAR WILL GIVE US A HEAD START TOWARDS COMPLYING WITH THE BALANCED BUDGET AMENDMENT THAT, DUE TO THE OVERWHELMING DEMAND OF THE AMERICAN PEOPLE, WILL INEVITABLY BE ENACTED.

I KNOW THAT TO SOME OF YOU THIS MAY SEEM LIKE A RADICAL PIECE OF LEGISLATION. BUT WE HAVE TO ASK OURSELVES: WHAT ARE WE DOING TO THE FISCAL FOUNDATION OF OUR NATION? WHAT ARE WE DOING TO OURSELVES AND TO OUR CHILDREN? THE FEDERAL GOVERNMENT HAS BEEN ON A 25-YEAR SPENDING SPREE, AND FRANKLY THERE IS NO END IN SIGHT. OUR NATIONAL DEBT IS CURRENTLY OVER $4.3 TRILLION AND THE CLOCK IS TICKING. WE WILL ADD SEVERAL MILLION MORE TO IT BY THE END OF THIS HEARING, IF YOU CAN BELIEVE THAT.

I BELIEVE WE NEED TO ACT IN EVERY AREA. WE NEED TO CUT OUR OFFICE ACCOUNTS. WE NEED TO CUT FUNDING IN THE EXECUTIVE BRANCH. WE NEED TO ATTACK THE MANDATORY SPENDING PROBLEM. WE NEED TO REDUCE DISCRETIONARY SPENDING, DOMESTIC SPENDING, INTERNATIONAL AND DEFENSE SPENDING. AND THE TAXPAYER DEBT BUY DOWN ACT WILL FORCE US TO DO IT--OR WE WILL FACE A SEQUESTER. HOWEVER, I WANT TO EMPHASIZE THAT, UNDER THIS PROPOSAL, SOCIAL SECURITY IS EXEMPT FROM THE SEQUESTER AND WOULD ONLY BE CUT IF CONGRESS VOTED TO CUT IT.

THE KEY ASPECT OF THIS LEGISLATION IS EMPOWERMENT. THE POWER IS IN THE HANDS OF THE PEOPLE THAT FILL OUT THE 1040'S ON APRIL 15--THE PEOPLE WHO PAY THE TAXES. THESE ARE THE PEOPLE, IF THIS LEGISLATION IS ENACTED, WHO CAN SAY: CONGRESS, I AM GOING TO GIVE YOU MY TAX DOLLARS, BUT I AM GOING TO TELL YOU THAT YOU HAVE TO PUT 10 PERCENT OF IT, OR WHATEVER I DESIGNATE UP TO 10 PERCENT OF IT, TO REDUCE THE DEFICIT AND THE DEBT OF THE UNITED STATES OF AMERICA. IT IS EMPOWERMENT; IT IS DEMOCRACY AT ITS GRASSROOTS, AT ITS BEST.

SOME HAVE SAID THAT THE 10% CHECKOFF IS A GIMMICK. I SAY TO THOSE PEOPLE: IT IS VOLUNTARY. IF YOU THINK IT IS A GIMMICK, WHEN APRIL 15 COMES AROUND, DON'T CHECK THE BOX.

MY GUESS IS THAT MANY AMERICANS WILL DECIDE TO PARTICIPATE AND CONGRESS AND THE PRESIDENT WILL THEN GET THEIR MARCHING ORDERS FROM THE PEOPLE. THOSE OF US WHO ARE SPONSORING THIS BILL ARE SIMPLY SAYING: LET US NOT IGNORE THE WILL OF THE PEOPLE.

IN FACT, I BELIEVE WHAT SCARES THE OPPONENTS OF THE TAXPAYER DEBT BUY DOWN ACT IS THAT THEY KNOW THE PLAN WILL WORK. AND, THAT WHEN THE TRUST FUND IS ESTABLISHED TO PAY DOWN THAT DEBT, CONGRESS IS GOING TO HAVE TO TAKE A MATCHING AMOUNT OF DOLLARS AND ACTUALLY REDUCE SPENDING--SOMETHING WE HAVE BEEN LOATHE TO DO.

IS THIS A TOUGH DECISION CONGRESS HAS TO MAKE? YOU BET. BUT HERE IS THE POINT ABOUT THIS PLAN. THE PEOPLE ARE TELLING US TO MAKE THE DECISIONS. THEY ARE SAYING: IT'S MY MONEY. I AM GIVING IT TO YOU TO SPEND, AND HERE IS WHAT I AM TELLING YOU TO DO WITH IT. I WANT THE BUDGET BALANCED. I WANT THE DEBT REDUCED. I DO NOT WANT MY KIDS TO PAY FOR THIS ANYMORE.

I DO NOT EXPECT EVERY TAXPAYER TO CHECK OFF THE BOX. BUT I THINK MANY WILL AND IT MIGHT BECOME CONTAGIOUS. I THINK THE AMERICAN PEOPLE--AND EVEN CONGRESS--WILL BE THRILLED THAT THIS MONEY IS BEING USED TO ELIMINATE THE DEFICIT AND RETIRE THE DEBT.

ALTHOUGH IT IS AN ISSUE THAT IS FOREMOST IN THE MINDS OF THE AMERICAN PEOPLE, TALK OF DEFICIT REDUCTION GOES IN AND OUT OF STYLE IN THE HALLS OF CONGRESS. SOMETIMES WE FOCUS A GREAT DEAL OF ATTENTION ON IT, SOMETIMES WE LET IT FALL BY THE WAYSIDE. THE 10% CHECKOFF WILL GIVE US A NATIONAL REFERENDUM ON SPENDING AND THE DEFICIT EVERY APRIL 15TH. EACH AND EVERY YEAR CONGRESS WILL KNOW, BEYOND A SHADOW OF A DOUBT, HOW THE AMERICAN PEOPLE FEEL ABOUT OUR FISCAL SITUATION. AND, WE WILL BE FORCED TO ACT ON IT.

I AM WELL AWARE THAT THIS PROPOSAL IS CONTROVERSIAL. I KNOW THAT SOME MEMBERS OF CONGRESS FEEL THAT ACROSS-THE-BOARD CUTS ARE UNFAIR. HOWEVER, SEQUESTERS ARE NOT NEARLY AS UNFAIR AS BURDENING FUTURE GENERATIONS WITH MOUNTAINS OF DEBT. WE DO NOT HAVE TO HAVE ACROSS-THE-BOARD CUTS. WE DO NOT HAVE TO HAVE A SEQUESTER. THE ONLY REASON WE WILL GET A SEQUESTER IS IF CONGRESS DOES NOT HAVE THE GUTS TO STEP UP TO THE PLATE AND PRIORITIZE FEDERAL SPENDING. SO IF CONGRESS ACTS RESPONSIBLY, THERE WILL BE NO SEQUESTER.

I ALSO KNOW THAT THIS IS AN INNOVATIVE PROPOSAL AND NOT THE KIND OF LEGISLATION WE USUALLY CONSIDER. AND SO I ASK YOU TO APPROACH THIS WITH AN OPEN MIND. AFTER ALL, WHERE IS IT WRITTEN THAT TAXPAYER'S SHOULD NOT BE ABLE TO DIRECTLY SAY WHETHER OR NOT THEY WANT A VERY SMALL PORTION OF THE FEDERAL BUDGET TO BE ALLOCATED TO A CAUSE THAT IS INDISPUTABLY IN THE NATIONAL INTEREST? MOREOVER, SINCE WE ALLOW TAXPAYERS TO DIRECTLY DECIDE WHETHER OR NOT THEY WANT TO HELP FINANCE *DEFICIT SPENDING* BY GIVING THEM THE OPTION OF PURCHASING TREASURY SECURITIES. WHY CAN'T WE ALLOW THEM TO DECIDE WHETHER OR NOT THEY WANT TO DIRECTLY HELP FINANCE *DEFICIT REDUCTION* BY GIVING THEM THE <u>OPTION</u> OF DEVOTING A SMALL PORTION OF THEIR TAX LIABILITY TO THE DEFICIT REDUCTION TRUST FUND?

YES, THIS BILL IS CONTROVERSIAL AND INNOVATIVE. BUT, IT IS ALSO REAL, POSITIVE CHANGE--IT IS DEFINITELY NOT BUSINESS AS USUAL. I BELIEVE IT IS TIME FOR BOLD MEASURES AND NEW IDEAS. FOR TWENTY FIVE YEARS WE HAVE MORTGAGED OUR CHILDRENS' FUTURES; IT IS SHAMEFUL AND IT HAS GOT TO STOP. WE HAVE TO STOP THE SPENDING, STOP THE BORROWING AND PAY DOWN THE DEBT, AND THE TAXPAYER DEBT BUYDOWN ACT WILL HELP US DO JUST THAT.

WE HAVE TO START THINKING ABOUT THE FUTURE. WE HAVE TO STOP THINKING ABOUT THE NEXT ELECTION AND START THINKING ABOUT THE NEXT GENERATION AND THE GENERATION AFTER THAT. THIS LEGISLATION HAS THE POTENTIAL TO FORCE MEMBERS OF CONGRESS--OF BOTH PARTIES--TO DO WHAT WE SHOULD HAVE BEEN DOING FOR 25 YEARS; NAMELY, REDUCE SPENDING AND BUY DOWN THE DEBT.

I THINK THE AMERICAN PEOPLE DESERVE A CHANCE, A CHANCE TO SHOW THEY ARE WILLING TO MAKE THE SACRIFICES NECESSARY TO TACKLE A PROBLEM THAT WE HAVE BEEN UNWILLING TO TACKLE. THAT IS ALL WE ARE ASKING IN THIS LEGISLATION. GIVE THE AMERICAN PEOPLE A CHANCE. THANK YOU.

Chairman RANGEL. It has been my experience that if you were to take a poll among American taxpayers that most all of them would want us to reduce the deficit. Most all of them would want us to cut back in Federal spending. Most all of them, if not all of them, would certainly want a decrease but certainly not an increase in taxes. So we don't have an argument there.

Now, you give them the opportunity to say, what, I would want to have a part of the money and to send the money I owe to my government to be used not for defense, not for education, not for health care, not for all of those things that governments have a responsibility to supply, but I designate that 10 percent be directly used to reduce the deficit?

Now, I would see why that would be very, very popular. But if somebody asks for some help before they did that, would not that person ask now when they reduce the deficit, how do I know what they are going to cut? The answer would be you just don't know.

And I know Social Security is protected but maybe if you are blind and you have some income and you designate something to be cut, it is very possible that the very one thing that you thought government was doing might be the very thing that would be cut. Is that possible under this provision?

Mr. WALKER. Sure, that is possible, but the fact is that the moment that you figured out that you didn't like the cuts that were taking place, you could decide the next year not to designate the money for debt buy-down so that in fact you have a referendum every year. And my guess is that if people figured out it was doing something that they didn't like, that they wouldn't take the check-off next year.

Chairman RANGEL. So if I am a farmer who is enjoying a subsidy and I had an outstanding liability and I checked off the box for deficit reduction and they whack the heck out of my subsidy, then I would say I am not going to do this next year, right?

Mr. WALKER. That is the option that would be available to you and that is the reason why it becomes a referendum.

Chairman RANGEL. Could I check another box and say give me back my subsidy or is it all over then?

Mr. WALKER. You don't get it back, but I mean, the point is that——

Chairman RANGEL. They won't get you every year for it.

Mr. WALKER. And the fact is that the Congress is the one that is going to be making those decisions, just like it does now. I mean, you can still hold the Member of Congress and the Senator politically accountable for the fact when he chose the priorities that he was going to cut, he chose the program that was important to you. You may decide that you didn't like that so that you have two bites at the apple really. The next year you don't subsidize——

Chairman RANGEL. So when you go home, you say I didn't cut it, you cut it.

Mr. WALKER. Precisely. In fact, that is some of the political cover that comes out of this, is that the American people at that point will have demanded it and the Congress is in fact responding to a demand of the American people.

Chairman RANGEL. Why did you exclude Social Security?

Mr. WALKER. It is excluded in here because it is a separate trust fund. It does in fact have its own tax tied to it and it is treated differently in nearly all of the budgetary work that we do.

Chairman RANGEL. We can strike them if they get carried away with this thing. We can get them in health care. That is not exempt; is it?

Mr. WALKER. No. Health care is not exempt. Medicare is not exempt.

Chairman RANGEL. National defense, if something happens that we want to invade Panama again or bomb Iraq, that wouldn't interfere with our ability to do that; would it?

Mr. WALKER. No. Congress would have to make some determinations about priorities at that point and would have to make a judgment about whether or not one thing that they were asking to be done was more important than other things that they wanted to do.

Chairman RANGEL. So this would give us the will that we haven't got to reduce the deficit. We will now be mandated to do it by the voters.

Mr. WALKER. I don't think any proposal gives you will. I think what it does, is give you a constituency for cutting. It gives you the ability to find a constituency out there that has made it clear that they want those cuts to be made. And I think that is different from the constituency that now exists that only wants the money to be spent.

Chairman RANGEL. Very good. Now, of course, this would exclude the working poor; they would not be able to participate in this at all; would they?

Mr. WALKER. Well insofar as they are taxpayers, they would be able to participate.

Chairman RANGEL. I mean, if indeed they are the working poor, they get the deductions and they just don't have a liability, but they work every day and they are just concerned about the progress this Nation is making as well as anyone else and they would like to participate but because they don't have enough income, they just would not have any liability, but they will be out of it.

Mr. WALKER. Well, the only people who would participate in this are people who have a tax liability but that——

Chairman RANGEL. As I said, the people would be out of it. If you just worked hard and you didn't make enough money to owe your government, or even if you work so hard that your government owes you, you are just out of this process.

Mr. WALKER. Sure. And there are a lot of my constituents who are not tobacco growers who don't get to participate in the tobacco program. The fact is there are all kinds of systems in the government where we——

Chairman RANGEL. How did tobacco growers get involved in this?

Mr. WALKER. I am just saying to you there are lots of places in government where because of the nature of the program people are not eligible to participate. In this particular case, the people eligible to participate will be people who actually pay taxes and anybody who pays taxes, regardless of circumstance, would be eligible to participate up to 10 percent of their tax liability.

Senator SMITH. I would like to just say, Mr. Chairman, an added point is that your example about the poor or those who do not pay taxes is one of the stronger arguments against the legislation, but I would say those people are, in essence, for want of a better phrase, at the mercy of Congress anyway. Congress makes the decision regarding how much money goes for Medicaid, welfare, whatever those funds may be. So I think that the broader issue here is that the American people can say those who pay the taxes can say that we feel that these—that this is what we would like to have as a percentage drawdown on the debt.

And I might also conclude on that point by saying that I think paying down the national—paying the deficit down and paying the debt down is advantageous to everyone, including the poor, simply because we won't be spending $200 billion or $300 billion annually on interest on the national debt when we get it paid off.

Chairman RANGEL. Well, that was almost my point, that if we were to cut anything, we would normally cut it from the least politically powerful group and it seemed to me that it would be that Medicaid group anyway that we would hit.

Mr. WALKER. It seems to me that if you have people participating in this, and, one of the criticisms has been that the wealthy would get a chance to participate disproportionately because they pay so much of the overall tax burden, and if they were designating a lot of money to be bought down, it seems to me that becomes a powerful argument to cut out all subsidies to rich people.

There are lots of those programs out there. And you would have a pretty powerful argument for totally eliminating those as the first thing you did if these were the folks who are designating money for debt buy-down.

I would also point out——

Chairman RANGEL. First point I want to say, you are saying that the wealthy have an extraordinarily high income and therefore high tax liability, that one of the selling points would be for them to check it off so we can cut out the subsidy that they got and therefore receive a high tax liability?

Mr. WALKER. I am simply saying that because their tax liability is great and so if they choose to check it off and——

Chairman RANGEL. We cut out their subsidies.

Mr. WALKER. One of the options certainly available to Congress at that point is to cut out their subsidy.

Chairman RANGEL. It wouldn't be a selling point for them, would it?

Mr. WALKER. At that point, again, they can elect whether or not they want to go through and designate the money. It is strictly voluntarily. But as long as they were volunteering to do it, it may also be an indication to us that they are willing to see the cuts take place in programs that affect them.

Senator SMITH. I think the point that Bob is making, if that was the feeling of the Congress that the rich were doing that to the detriment of those who were not as fortunate, Congress could retaliate against those same people by taking their subsidy, taking their cuts wherever they may be, hitting them.

Chairman RANGEL. If a lower income person had a tax liability and they designated a percentage in order for the deficit to be used,

thinking they are going after the subsidy but instead they go after them, then that is just the roll of the dice, right? You don't know.

Mr. WALKER. That would simply be up to the Congress at this point. The Congress would make those decisions.

Chairman RANGEL. It is up to the Congress now. Isn't it up to the Congress now?

Mr. WALKER. Yes. And what Congress has done right now is it has piled on to every one of those persons, whether they are poor or rich, an average of $17,000 apiece in debt and every——

Chairman RANGEL. I thought you were giving us a cover.

Mr. WALKER. Every family is paying an interest burden every year on that $17,000 of debt that Congress has piled on to those people, and people of modest means are more likely to be affected by that debt than people at a wealthier level.

What this does is assures that the piling of that debt on to the American people is not going to continue and in fact is going to be bought down to the point where they would have zero debt.

Chairman RANGEL. But nobody wants debt piled on. I thought that this was going to be a cover, especially for us on the tax writing committee. That when we cut them, either their subsidy or assistance to the poor, we could say, hey, I didn't want to do that, you told me to do it.

Senator SMITH. Well, what bothers me about your argument, Mr. Chairman, if you take the approach that the dollars we are talking about to cut, then if you follow that out to its logical conclusion, we are never going to balance the budget, because somebody is going to have to be hurt in some way to do it.

Chairman RANGEL. We will do it without a cover. I just didn't think that was much of a cover. We will do it. But I just thought—I come down to town hall meetings and tell you, being wealthy, that I am getting you a subsidy, you know, I am sorry about that and then the poor person saying I may have to touch your Medicaid, too.

Mr. WALKER. I personally don't have a problem at all going to town hall meetings and telling people if you want to have cuts in government spending it is going to have to come out of your hide as well as everybody else. Don't suggest to me that if cuts are going to take place at government level it is going to come out of the guy hiding over there that we can't see, that all of us aren't going to have to participate in this. So I don't have a problem at all going to a town meeting and suggesting that, including to the wealthy.

Chairman RANGEL. That would help you at the town hall meeting?

Senator SMITH. I think so, yes.

Chairman RANGEL. Mr. Hancock.

Mr. HANCOCK. Thank you, Mr. Chairman.

I would say, Mr. Chairman, that I didn't come to the United States Congress to try to figure out how to cover up doing what was right. Ultimately, we are going to have to address this national debt situation. As far as I am concerned, we are missing the key point proposed here. I don't care how we go about doing it. Ultimately this national debt is going to overwhelm our system of government. Now whether it happens in 1999 or whether it happens in the year 2005, I don't know. Maybe it will be 2020. First, if we

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undertook this effort and the people if in fact started doing this, wouldn't this reduce the pressure on interest rates versus the possibilities that we are going to face some increase in interest rates?

Second, if in fact interest rates were to double, let's say in the next three to five years, what happens to our deficit? If you double interest rates, you are going to double the amount of interest we are currently paying and the deficit projection is going to double possibly in the next 4 to 10. Aren't we rapidly getting to the point that if we don't do something now it is going to be too late?

Mr. WALKER. Well, one of my great concerns is the fact that if you follow those trend lines out, understand that we go out to $13 trillion worth of national debt by the years 2008 and 2009. In that period, you consider what the payment of interest would be on that, you would literally be in the trillions of dollars of interest payments that would need to be made on $13 trillion worth of national debt. Some plan needs to come forward.

If you take a look at—I think you have it before you now—this new CBO run on where we are by the year 2003, you will see that in interest savings alone in the year 2003, you get $182 billion worth of interest savings in that year under this plan. That obviously is going to have an impact on the ability to hold down interest rates overall and it is obviously then money that can be used for other national priorities or can be refunded to taxpayers perhaps in tax cuts, but there is a big savings on an annual basis out by the year 2003. That, I think, is something that is a very positive thing for the economy and for the government.

Senator SMITH. Mr. Chairman, if I could just interject for a second, I have a roll call vote so I am going to have to excuse myself.

Chairman RANGEL. Thank you for making your contribution to us. As soon as this bill starts moving, we will share it with you.

Senator SMITH. Thank you.

Mr. HANCOCK. Now, you know that, I have been asked many, many times in town hall meetings, and is very frustrating—what can we do? What can I do as an individual, as an ordinary hard working citizen to help reduce and address this national debt? As of right now you almost have to say, well, there isn't anything you can do except maybe try to elect some people that have the ability to say no instead of yes to every special interest that comes down the pike.

But the question is to you, Bob and I am sure that you have talked to a lot of people—do you think that people are really concerned about this national debt? I mean, does the average working guy out there understand what he is facing if we don't get this thing under control?

Mr. WALKER. It probably varies from district to district, but in my district is it the single largest issue with people in terms of town meetings, in terms of questionnaires, in terms of all the interaction that I have with my constituents; their number one concern is debt and deficit and because they realize that it is impacting on the future both of themselves and their children, and that if we don't do something to control it their kids are not going to be able to have the same kind of quality of life that they have enjoyed. They tie it to that and they think that something should be done.

One of the reasons I came up with this proposal was exactly out of those kinds of concerns as people have talked to me. They say, what can I do; is there something I can do? And I sought to create a mechanism that would allow them to be able to say, yes, here is something I can do; I can put aside a portion of the taxes that I am paying to go toward that which I regard as most important; namely, debt and deficit. As it is right now when they pay their taxes they know it is going to be spent away and then Congress is going to do something even worse, they are going to spend more than what they have collected in revenue. And they can't have any impact on that at the present time. This gives them a chance to have an affect on that.

Mr. HANCOCK. Supposedly, there is a mechanism where an individual can voluntarily contribute money to the Treasury, earmarked for the national debt. I question if that accomplishes anything because there is nothing in our budgetary process that really does any good.

Mr. WALKER. If there is no corresponding reduction in spending, of course, that becomes nonsense. The money may have gone against the debt but the fact is it is spent away almost momentarily.

Mr. HANCOCK. As you know, I represent a fairly conservative district, and Mr. Chairman, you might be a little surprised, but I have had some people in my district actually say I will pay more taxes if in fact it would go to the national debt.

Chairman RANGEL. I hear it every weekend back home.

Mr. HANCOCK. Well, why don't we do it? The trouble is all we do is increase spending. For every dollar we take in we spend an extra $2. Is there anything in this mechanism that would allow the individual to state preferences? Do we come up with a mechanism where they can check off 10 percent? What about that good loyal patriotic American that says, well, I would like to send in an extra 10 percent. Could we work something out where that guy could do that? Because there are people out there that are truly concerned. They don't want to send money to the United States Congress to play games with it. They want to make sure it goes to the right place.

Mr. WALKER. That is not included in the proposal as presently drafted. It is something that could be looked at. Once had you a debt reduction fund that actually was forcing action to take place, you could in fact accommodate some additional money going into it.

I must say in the Pennsylvania Dutch country, I don't have too many of those people who are looking for an opportunity to contribute more money to the government than they are already giving, but if you have got a few constituents like that, it would be easily built into the mechanism.

Chairman RANGEL. Give them a 1–800 number.

Mr. HANCOCK. Well, I do think that enough people are beginning to understand what is happening and especially with the interest payments. You know, with low interest rates now things are looking a lot better than they would have been if interest rates had stayed where they were. We would be in real serious trouble right now except for that one factor.

I anticipate that interest rates are going to go up fairly quickly. I support the concept of what you have here and I think we ought to pursue it and give the people the opportunity to have a voice rather than us telling them how their money is going to be spent. I support that.

Thank you, Mr. Chairman.

Chairman RANGEL. Sure. Mr. McCrery.

Mr. MCCRERY. Thank you, Mr. Chairman.

I want to get to our other witnesses but just very quickly, I thought the chairman brought up a good point, he mentioned we might have an emergency like a war which would require greater spending in the area of defense. We might also have a recession in which case we would require more expenditures for unemployment compensation, for example.

Could something be built into your bill to accommodate an emergency with some kind of super majority of votes, 60 percent of the Congress, something like that?

Mr. WALKER. That is not in the proposal at the present time. It seems to me that that is something that you might want to consider adding if you were going to move it ahead, to have some sort of emergency provision.

I would also say that any kind of a long-term emergency would be partially solved by the fact that the American people are probably not going to designate the money if they begin to understand that we are in the midst of a war. I mean, during World War II you had people out actually buying government bonds and doing all kinds of things because they understood the nature of the emergency. That would certainly play a role in this plan as well.

You could certainly have a momentary emergency, something that would be undermined by the debt buy-down in a particular year, and I would have no problem with putting language in that would allow us to deal with it.

The only thing I would say to you is that I would want to make certain that there is some mechanism such as a super majority that made certain it was a true emergency. We built the emergency provision into the Budget Act here a couple of years ago. Now everything is an emergency. The way we get by to do more spending is to declare anything an emergency and go on and spend the money. That, obviously, would have an impact on our ability to buy-down debt if virtually everything the government was doing became an emergency.

Mr. MCCRERY. Thank you, Mr. Chairman.

Chairman RANGEL. Mr. Payne.

Mr. PAYNE. Thank you very much Mr. Chairman.

Mr. Walker, thank you for bringing this bill before us today. I think many of us are very interested in doing all that we can to reduce the deficit. In fact, I think many of us recently voted in favor of a deficit reduction plan that the President had proposed for that very reason.

Let me see if I understand, though, the mechanics of this a little better. As I understand it, what happens is when you check off your box, you can have up to 10 percent of your tax used for the purpose of reducing the debt or put into a trust fund which would

reduce the debt, and then a corresponding amount of money would have to be saved or not spent.

Mr. WALKER. Off the baseline.

Mr. PAYNE. Off the baseline. It seems to me what that would do, while it would reduce the debt, it would do very little to reduce the deficit.

Mr. WALKER. It brings it down. If you look at the CBO numbers in the material that has been provided to you, you actually reduce the deficit. Under this plan, between the year 1994 and the year 1998, the deficit goes from $253 billion of deficit to a $69 billion surplus under this plan, if the plan works optimally. So it does have an impact immediately of reducing the deficit as well because you are actually making real spendings off the baseline.

Mr. PAYNE. You are——

Mr. WALKER. Real savings off the baseline.

Mr. PAYNE. But you are basically replacing money that you would have spent—you are basically replacing revenue with spending cuts.

Mr. WALKER. No, the money that is used for the debt buy-down is actually buying down securities. In other words, you are actually paying off debt with that money.

Now, to ensure that just doesn't cause us to buy additional securities you also then have to subtract it from the spending so the spending reductions are real.

Mr. PAYNE. The spending reductions are real but so is the loss of revenue so the two——

Mr. WALKER. There is no loss of revenue. The revenue continues——

Mr. PAYNE. You are taking the revenue that you thought you were going to have to run the government, you used that instead to buy-down debt. You have taken a corresponding amount of spending and reduced it so that the net effect is that the deficit—the only reduction in the deficit would be however much interest would have ordinarily been paid on that amount of debt.

Mr. WALKER. Under the way we operate the government, you would still be receiving the revenue. We simply would designate it for another purpose so that the revenue would still be coming into the government, would still be scored as revenue received by the Federal Government.

The fact is that what you would be getting would be spending savings off the base line. Those spending savings off the baseline do, in fact, result in a reduction of the deficit as well as the reduction of the debt.

And according to CBO, as I say, between the year 1997 and 1998, we go from $12 billion of deficit in 1997 to $69 billion in surplus by 1998.

Mr. PAYNE. Thank you for bringing this to our attention, and I would like to speak with Mr. Reischauer about it as well to try to understand specifically how those numbers happen.

Chairman RANGEL. Mr. Camp, I am sorry. I overlooked you.

Mr. CAMP. Thank you Mr. Chairman.

I want to compliment you, Bob, for bringing this forward. I am a cosponsor of the bill. I want to try to work with you to try to implement this.

Mr. WALKER. Thank you very much.

Chairman RANGEL. Mr. McNulty? Mr. Kopetski?

Mr. KOPETSKI. Yes, Mr. Chairman.

If I understand, Mr. Walker, this provision, it actually has a double hit. In a sense, it is the genius of this. One, you put this money in the trust fund, and that was one of my questions, was then you buy, like, 3-year Treasury notes and you buy off that indebtedness, buy off the debt.

Mr. WALKER. You buy-down the debt, that is right.

Mr. KOPETSKI. Then on the other side, you reduce the spending that impacts the annual deficit. So you are not adding to the debt, you are subtracting——

Mr. WALKER. You are subtracting from the debt and the deficit each year, that is right, yes.

Mr. KOPETSKI. But as I recall the debate over reconciliation, that the last half of our deficit has more to do with health care costs then any of our other spending programs and that is why the President has launched the initiative for health care, universal access, but also an important part of that is cost containment. If we don't do anything about controlling health care costs because, whether it is VA or Medicare or Medicaid, that is really what is driving our deficit now and down the road as well.

The question I have is that you are not doing anything to fix that problem with this program and absent anything else, absent, not touching health care, this isn't really going to fix that problem.

Mr. WALKER. But there is nothing in this that prevents you from making the policy changes in order to achieve the savings. All this does is forces you to achieve the savings and the fact is if health care costs are driving up the deficit, what you are going to want to do is make the policy changes necessary to bring down those health care costs and thereby achieve the savings. All this plan does is says to you that you must achieve a certain level of savings each year and that must at least match what the American people have told you in their checkoff that has to be met.

I would suggest to you that we are not only going to have to deal with health care there, we are going to have to deal with a whole range of major reforms in government in order to achieve the level of savings that are anticipated under this plan.

Mr. KOPETSKI. But under reconciliation, we put a domestic discretionary cap of I think $537 or $538 billion. Five years from now, we are not going to spend any more than $537 or $538 billion in the domestic discretionary spending. It is the entitlement programs that are a problem, and health care is an entitlement program and it is a problem——

Mr. WALKER. This allows you to make changes in the entitlement programs as well.

Mr. KOPETSKI. But we are dealing with that issue in this committee. We had Secretary Bentsen here this morning. Our issue on our agenda for 1994 is health care cost containment.

Mr. WALKER. OK. And there would be absolutely nothing in this plan that would prevent you from going ahead with that. As a matter of fact, you would be absolutely encouraged by this plan to go ahead with that because if you take a look at these charts and recognize the amount of money that would have to be saved in

order to meet the targets demanded by the American people, I would tell you we would have to do far more than just health care reform. We would have to look at privatizing some government services. We would have to do a number of things in order to achieve the level of spending cuts that would be anticipated under an optimal performance of this plan.

So there is nothing that is incongruous with your need to do health care reform in this at all. It would simply, in my view, force you to do it, that you would really have to look at health care reform in terms of the savings that you wouldn't be able to get bought off. We have got to do this, that and the other spending in order to achieve real savings because you would have real spending reduction targets that would have to be met that the American people would have demanded.

Mr. KOPETSKI. I guess finally—I will think about this some more—what this forces us to do, though, is forces us to cut further in some programs and war is one thing but being—having a prepared defense, whether prepared defense in my mind includes a strong education program as well, we are going to be extracting deep cuts in education programs. We are going to be extracting further cuts in our military to our military defense programs which could endanger us as a Nation and maybe we won't be in a war but we are going to be forced to make those kinds of cuts and, you know, I am not sure we want to do that.

Mr. WALKER. But under any kind of balanced budget scenario, and you know, if we want to argue that we have no intention of balancing budgets and we have no intention of doing anything about the debt, then we can argue that there are all kinds of spending priorities out there that we ought to do.

I would suggest to you, though, that if we are serious about a balanced budget amendment of the Constitution, and a number of other budget reforms at the point that you decided you want to balance the budget you are going to have to deal with those kinds of problems, that there are going to be all kinds of programs then that are going to face some real decisions about where you cut.

I am suggesting here that if had you a balanced budget amendment to the Constitution that this would be complementary to that because at least then you would have the American people designating certain amounts to be cut and helping you so that you would indeed be able to go back to your districts and talk about the fact that we are cutting and we are cutting based upon a mandate provided to us on April 15 by the American people.

Mr. KOPETSKI. Mr. Chairman, I guess my problem with this concept is that maybe it is ahead of its time, that we have a new President that has outlined the strategy for us to get a balanced budget and we have done the first half through reconciliation. The next half is through health care cost containment and then we see.

For me, in this perspective, I may be convinced down the road, we ought to go along with that strategy.

Chairman RANGEL. Let me thank you, Congressman Walker, for your revolutionary concepts. If I have any problems in my district explaining it, I am certain you will make yourself available.

Mr. WALKER. I certainly will. I will come to your district, Mr. Chairman, and explain it for you fully, Mr. Chairman. I thank you and I thank you for having the hearing. I appreciate it.

Chairman RANGEL. The Chair would like to recognize some future taxpayers, students from Christiandom College, who are led by my former classmate at Saint Johns, Professor Francis Chester who is here. We welcome you to the Ways and Means Committee and remember to check off. You see that box, you know you were here when it started. You were right there.

We are going to have Treasury and the CBO together. So the Deputy Tax Legislative Counsel, Maurice Foley, and our old friend, Robert Reischauer, Director of the Congressional Budget Office. Both of your statements will be entered into the record in their entirety without objection and you may highlight it or respond to some of the questions that were made previously.

We will start with the Treasury Department, Mr. Foley. Welcome once again, Mr. Foley.

STATEMENT OF MAURICE B. FOLEY, DEPUTY TAX LEGISLATIVE COUNSEL FOR LEGISLATION, U.S. DEPARTMENT OF THE TREASURY

Mr. FOLEY. Mr. Chairman and members of the subcommittee, I am pleased to have this opportunity to present the views of the administration on H.R. 429, the Taxpayer Debt Buy-Down Act.

Before turning to the views of the administration, I would like to provide the subcommittee with background information on the Presidential Election Campaign Fund checkoff, which is the only analogous Federal program.

Section 9006 of the Internal Revenue Code establishes the Presidential Election Campaign Fund. Each individual who has a Federal income liability of at least $1 may designate by checking the appropriate box on his or her tax return that $1 be paid into the campaign fund. Pursuant to the Omnibus Budget Reconciliation Act of 1993, individuals will be able to designate $3 of their tax liability beginning next year. The amount designated for the campaign fund does not affect the taxpayer's tax liability.

For calendar year 1992, 20.5 million tax returns designated a total of $29.6 million in contributions to the campaign fund. A total of $32.3 million in contributions was designated for calendar year 1991. The main cost of administering this provision consists of the labor cost of transcribing data at the IRS service centers where the returns are processed.

I would now like to give a brief overview of H.R. 429 and then I will give the administration's position. H.R. 429 would provide individual taxpayers with the ability to designate on their Federal income tax returns between 1 and 10 percent of their tax liability to be earmarked for reducing the public debt. The Treasury Department would estimate on May 1 the total amount earmarked on returns filed for the preceding calendar year and would transfer that amount into a public deficit reduction trust fund. The IRS would tabulate the actual amount designated but this could not be completed prior to the May 1 deadline provided by the bill so the Treasury Department would make an estimate.

The amounts in the trust fund would be used to retire or purchase outstanding Treasury securities and therefore could not be used to fund Federal programs. H.R. 429 also mandates a corresponding decrease in Federal spending. This decrease, if not done legislatively through reductions in discretionary appropriations and direct spending, would be achieved through an essentially across-the-board sequestration. Social Security payments and net interest payments on Federal debt and funding for certain insurance funds established to resolve the savings and loan problem would be exempted from sequestration under the bill.

Sequestration updates would be released by OMB and would be expanded to include the Treasury estimate of the amount earmarked to the trust fund. These reports would also contain an estimate of the amount of the percentage reduction in programs that would be required as a result of the transfers to the trust fund.

The final reports issued within 15 days of the end of a congressional session would provide the actual amounts required to be sequestered. Budget authority or appropriations in the case of discretionary spending for the fiscal year would be cut by the sequestration percentage. Any increases in budget authority would be subject to pay those restrictions. The provisions of H.R. 429 would remain in effect until the entire outstanding public debt is retired.

The administration recognizes the objective of H.R. 429 is to impose discipline on spending by the Federal Government and in doing so reduce the amount of outstanding debt. This Administration has a strong commitment to deficit reduction as reflected in our efforts to pass OBRA 93. As you all know, OBRA 93 will reduce the deficit by nearly $500 billion over the next five years.

In addition, through the National Performance Review, a new rescission package, and a proposal to limit the growth of Medicaid and Medicare through health care reform, we have presented plans to further restrain the growth of Federal spending and reduce the deficit. In addition, the Bipartisan Commission on Entitlement Reform will come forward with suggestions for controlling entitlement costs and other serious budget reforms.

The Administration opposes H.R. 429, however, because of the potentially adverse effects it could have on the political and legislative process, the budget process, and the economy.

In addition, the bill would pose numerous administrative problems.

Turning first to the impact on the political process. By providing a blunt instrument which would provide across-the-board spending cuts, H.R. 429 could disrupt the orderly development of a Federal budget and discourage the Administration and Congress from setting priorities through difficult budgetary choices. Under our system of government, Members of Congress choose the spending programs to be funded and determine the amount of funding for each program.

H.R. 429 would allow certain individuals to effectively override those choices by extending to those designated in a transfer to the trust fund the right to permanently reduce the level of Federal spending. We believe the bill would dilute the ability of Congress to determine overall levels of funding.

In turn, the ranking of priorities would be made more difficult. For example, supporters of particular programs may seek to offset anticipated sequestrations of unknown amounts by proposing levels of funding that exceed the amount necessary to accomplish their objectives. This would further complicate the task of setting priorities in the budget process.

We also believe that there are distributional concerns about this proposal. By incorporating a one dollar, one vote concept into the budgetary process, H.R. 429 would undermine the fundamental one person, one vote tenet of our political system. The bill would allow citizens who incur significant tax liabilities to have a potentially greater voice in the way Federal funds are spent than those who incur little or no tax liability.

In addition, approximately 48 million potential taxpayers who in 1991 had no tax liability would, in a sense, be disenfranchised even though these individuals may pay payroll taxes, excise taxes or other Federal taxes, in essence, which would give a limited number of taxpayers a disproportionately large impact on the budget process and allow them to circumvent the normal political process.

H.R. 429 provides taxpayers with the ability to reduce the overall level of spending but not the ability to increase spending or reallocate the amounts spent on different programs. We believe the role of government in society and the way in which Federal moneys are raised and spent clearly are questions which deserve to be addressed by all citizens. These fundamental issues should be decided through the voting process, not through the tax system where low-income Americans who are likely to be affected the most by the outcome are effectively disenfranchised.

Now turning to budget considerations. By allowing taxpayers to elect to designate up to 10 percent of their current years' income tax liability to a deficit trust fund, this bill does not simply reduce congressional budget authority for the following fiscal year, it could permanently reduce the future budget authority by the amount designated each year so that designations in successive years would result in significant cumulative reductions.

It is also important to understand that the resulting spending cuts which are required to be spread equally across nearly all Federal programs would quickly have a major and potentially damaging impact on these programs. For example, since projected outlays for these expenditures subject to H.R. 429 total approximately $1 trillion, these programs would have to be reduced from their baseline levels by roughly 5 percent in fiscal year 1995, 10 percent in fiscal year 1996, 15 percent in fiscal year 1997 and so on if all taxpayers elected the maximum amounts allowed under H.R. 429.

Even if only a small fraction of taxpayers elected the maximum amount and only a moderate fraction elected to designate any portion of their tax liability to deficit reduction, these cutbacks could over time result in significant reductions in many programs, such as Medicare, Medicaid, guaranteed student loans, veterans programs, job training programs, head start, defense, outlays associated with the EITC, food stamps, and unemployment compensation. Some of these programs are designed to provide a safety net for those most in need of Federal assistance. And many of these

programs are currently restricted or exempted from cuts under current budget rules for sequesters.

There are also economic considerations related to this proposal. H.R. 429 would require an undetermined and unpredictable amount of spending cuts to reduce the public debt and, as a consequence, could severely limit the government's ability to prevent mild recessions from turning into severe economic downturns.

Similarly, during a modest economic upswing, such as we are currently experiencing, the unanticipated spending cuts pursuant to this bill could jeopardize economic recovery.

In addition, the sequestration provisions of H.R. 429 would remain in effect until the first fiscal year during which there is no public debt outstanding. Given that the outstanding public debt currently exceeds $4 trillion, the Federal Government could be required to run significant budget surpluses for years once the deficit is eliminated before all outstanding debt could be retired.

As a result, H.R. 429 could constrain discretionary budget policies and cause economic disruptions for an extended period of time. There are also administrative considerations that must be looked at. In addition to the broader policy concerns, we believe H.R. 429 could pose several administrative concerns. Any checkoff system would further complicate tax returns and instructions, but by requiring information that does not directly relate to the determination of an individual's income tax liability, the proposal could also complicate electronic filing.

Proposals such as this frustrate the objective of reducing the paperwork burden and the complexity of tax forms. Moreover, the space on the income tax form is already allocated to maximize compliance. Mandating additional items could displace items crucial to the proper reporting and collection of taxes.

There are also a number of processing concerns presented by this bill. Unlike the campaign fund, taxpayers would be able to designate different amounts based on their particular tax liabilities, thus the IRS would be required to devote significant resources to transcribing these designations. Amounts to be sequestered would be based upon estimates made by the Treasury Department of the aggregate amounts designated by taxpayers for the last taxable year ending before the beginning of that session of Congress. Given that the May 1 deadline, these estimates would, by necessity, be imprecise, especially in the early years.

In any given fiscal year, the sequestration might exceed or be below the amount designates. This would require adjustments to sequestrations to correct discrepancies between the estimates and actual designations.

In addition, some taxpayers are likely to make computational errors in determining the amount they wish to designate, potentially resulting in additional communications between those taxpayers and the IRS. Further complications would arise if the individual's tax liability is subsequently adjusted, potentially requiring changes to the sequestration percentage.

This concludes my prepared remarks, and I would be happy to respond to any questions.

Chairman RANGEL. Thank you.

[The prepared statement follows:]

EMBARGOED UNTIL 3:00 P.M.
November 16, 1993

STATEMENT OF
MAURICE B. FOLEY
DEPUTY TAX LEGISLATIVE COUNSEL (TAX LEGISLATION)
DEPARTMENT OF THE TREASURY
BEFORE THE
WAYS AND MEANS SUBCOMMITTEE ON SELECT REVENUE MEASURES
U.S. HOUSE OF REPRESENTATIVES

Mr. Chairman and Members of the Subcommittee:

I am pleased to have this opportunity to present the views of the Administration on H.R. 429 (the "Taxpayer Debt Buy-Down Act").

I. Background

Before turning to the views of the Administration, I would like to provide the Subcommittee with background information regarding the Presidential Election Campaign Fund check-off, which is the only analogous federal program.[1]

Presidential Election Campaign Fund. Section 9006 of the Internal Revenue Code establishes the Presidential Election Campaign Fund (the "Campaign Fund"). Each individual whose federal income tax liability for a taxable year is at least $1 may designate, by checking the appropriate box on his or her tax return, that $1 be paid into the Campaign Fund. Pursuant to the Omnibus Budget Reconciliation Act of 1993 (OBRA '93), individuals will be able to designate $3 of their tax liability beginning next year. The amount designated for the Campaign Fund does not affect the taxpayer's tax liability.

Monies in the Campaign Fund are used for three purposes: (1) payments to the national committee of each major and minor political party for its nominating convention; (2) payments to the eligible candidates of a political party for President and Vice-President; and (3) payments to eligible candidates seeking the nomination of a political party to be President.

For calendar year 1992, 20.5 million returns, or 18 percent of the total number of individual income tax returns, designated a total of $29.6 million in contributions to the Campaign Fund. A total of $32.3 million in contributions was designated for calendar year

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[1] A number of states provide check-offs on income tax forms to permit taxpayers to fund state electoral campaigns, private charitable organizations, and state governmental programs.

1991. The main cost of administering this provision consists of the labor cost of transcribing data at the Internal Revenue Service (IRS) service centers when the returns are processed.

II. Overview of H.R. 429

H.R. 429 would provide individual taxpayers with the ability to designate on their federal income tax returns between one and ten percent of their tax liability to be earmarked for reducing the public debt. The Treasury Department would estimate on May 1 the total amount earmarked on returns filed for the preceding calendar year, and would transfer that amount into a "Public Debt Reduction Trust Fund" (the "Trust Fund").[2] The amounts in the Trust Fund would be used to retire or purchase outstanding Treasury securities, and therefore could not be used to fund federal programs.

H.R. 429 also mandates a corresponding decrease in federal spending. This decrease, if not done legislatively through reductions in discretionary appropriations and direct spending, would be achieved through an essentially across-the-board sequestration. Social security payments, net interest payments on federal debt, and funding for certain insurance funds established to resolve the savings and loan problem (e.g., the Resolution Trust Corporation; Federal Deposit Insurance Corporation, Bank Insurance Fund; National Credit Union Administration, credit union share insurance fund, etc.) are exempted from sequestration under the bill.

Sequestration updates released under the Balanced Budget and Emergency Deficit Control Act of 1985 by the Office of Management and Budget would be expanded to include the Treasury estimate of the amount earmarked to the Trust Fund. These reports would also contain an estimate of the amount of the percentage reduction in programs that would be required as a result of the transfers to the Trust Fund. The final reports, issued within 15 days of the end of a Congressional session, would provide the actual amounts required to be sequestered. Budget authority (appropriations in the case of discretionary spending) for the new fiscal year would be cut by the "sequestration percentage" (i.e., the total amount earmarked by taxpayers for debt reduction divided by all government spending programs which are not explicitly exempted). Any increases in budget authority would be subject to pay-go restrictions.

The provisions of H.R. 429 would remain in effect until the entire outstanding public debt is retired.

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[2] The IRS would tabulate the actual amounts designated, but this tabulation could not be completed by the May 1 deadline provided in the bill.

III. Administration's Position

We recognize that the objective of H.R. 429 is to impose discipline on spending by the federal government and, in doing so, reduce the amount of outstanding federal debt. This Administration has a strong commitment to deficit reduction, as reflected in our efforts to pass OBRA '93. OBRA '93 will reduce the deficit by nearly $500 billion over five years. Through the National Performance Review, a new rescission package, and our proposal to limit the growth of Medicare and Medicaid through comprehensive health care reform, we have presented plans to further restrain the growth of government spending and reduce the deficit. In addition, the Bipartisan Commission on Entitlement Reform, which is chaired by Senators Kerry and Danforth, will come forward with suggestions on controlling entitlement costs and other serious budget reforms.

The Administration opposes H.R. 429, however, because of the potentially adverse effects it could have on the legislative process, the budget process, and the economy. In addition, the bill would pose numerous administrative problems.

Impact on the political process. By providing a blunt instrument, which would result in across-the-board spending cuts, H.R. 429 could disrupt the orderly development of a federal budget and discourage the Administration and Congress from setting priorities through difficult budgetary choices. Under our system of government, members of Congress choose the spending programs to be funded and determine the amount of funding for each program. H.R. 429 would allow certain individuals effectively to override those choices by extending to those designating a transfer to the Trust Fund the right to permanently reduce the level of federal spending -- a right not enjoyed by every citizen. The bill would dilute the ability of Congress to determine overall levels of funding. In turn, the ranking of priorities would be made much more difficult. For example, supporters of particular programs may seek to offset anticipated sequestrations of unknown amounts by proposing levels of funding that exceed the amount necessary to accomplish their objectives. This would further complicate the task of setting priorities in the budget process.

By incorporating a "one dollar, one vote" concept into the budgetary process, H.R. 429 could undermine the fundamental "one person, one vote" tenet of our political system. The bill would allow citizens who incur significant tax liabilities to have a potentially greater voice in the way federal funds are spent than those who incur little or no tax liability. In addition, approximately 48 million potential taxpayers who in 1991 had no income tax liability would, in a sense, be disenfranchised, even though these individuals pay payroll, excise, and other federal taxes. In essence, this would give a limited number of taxpayers a disproportionately large impact on the budget process and allow them to circumvent the normal political process.

H.R. 429 provides taxpayers with only the ability to reduce the overall level of spending, but not the ability to increase spending or re-allocate the amounts spent on different programs. The role of government in society, and the way in which federal monies

are raised and spent, clearly are questions which deserve to be addressed by all citizens. These fundamental issues should be decided through the voting process, not through the tax system, where those low-income Americans who are likely to be affected the most by the outcome are effectively disenfranchised.[3]

The check-off for the Campaign Fund does not raise these process concerns because the designations to the Campaign Fund do not trigger, through sequestration, budget cuts in other programs. In addition, the dollar amounts involved are much smaller. Even assuming 100 percent participation in Campaign Fund designations, the maximum annual amount of contributions would be approximately $345 million. By contrast, the midsession review of the budget projected fiscal year 1994 individual income taxes at somewhat less than $550 billion. Thus, the potential FY 1994 reduction in federal spending pursuant to H.R. 429 could exceed $50 billion.

Budget considerations. By allowing taxpayers to elect to designate up to 10 percent of their current year's income tax liability to a deficit trust fund, H.R. 429 does not simply reduce Congressional budget authority for the following fiscal year. Rather, it permanently reduces future budget authority by the amount designated each year, so that designations in successive years would result in significant cumulative reductions. Thus, if the bill were enacted this year, and all taxpayers were to designate the full 10 percent on their 1993 and future tax returns, Congressional budget authority would be reduced by approximately $50 billion in fiscal year 1995, $100 billion in fiscal year 1996, $150 billion in fiscal year 1997, etc.

It is important to understand that the resulting spending cuts, which are required to be spread equally across nearly all federal programs, would quickly have a major deleterious impact on these programs. For example, since projected outlays for the expenditures subject to H.R. 429 total approximately one trillion dollars, these programs would have to be reduced from their baseline levels by roughly 5 percent in fiscal year 1995, 10 percent in fiscal year 1996, 15 percent in fiscal year 1997, etc., if all taxpayers elected the maximum amounts allowed under H.R. 429. Even if only a small fraction of taxpayers elected the maximum amount, and only a moderate fraction elected to designate any portion of their tax liability to deficit reduction, these cutbacks could, over time, result in significant reductions in many programs, such as Medicare, Medicaid, guaranteed student loans, veterans programs, job training programs, Headstart, highway spending programs, defense, outlays associated with the earned income tax credit, food stamps, and unemployment compensation. Moreover, some of these programs are designed to provide a "safety net" for those most in need of federal assistance and are restricted or exempted from cuts under the current budget rules for sequesters (e.g., Medicare, Medicaid, food stamps, and unemployment compensation).

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[3] The Presidential Election Campaign Fund does not raise this distributional concern because every taxpayer who participates contributes the same amount.

Economic considerations. H.R. 429 would require an undetermined and unpredictable amount of spending cuts to reduce the public debt and, as a consequence, would severely limit the government's ability to prevent mild recessions from turning into severe economic downturns. Similarly, during a modest economic upswing, such as we are currently experiencing, the unanticipated spending cuts pursuant to this bill could jeopardize economic recovery.

In addition, the sequestration provisions of H.R. 429 would remain in effect until the first fiscal year during which there is no public debt outstanding. Given that the outstanding public debt currently exceeds $4 trillion, the federal government would be required to run significant budget surpluses for years (once the deficit is eliminated) before all outstanding debt could be retired. It would take many years to accomplish this goal. As a result, H.R. 429 would constrain discretionary budget policies and cause economic disruptions for an extended period of time.

Administrative considerations. In addition to the broader policy concerns, H.R. 429 would pose significant administrative burdens. Any check-off system would further complicate tax returns and instructions. By requiring information that does not directly relate to the determination of an individual's tax liability, the proposal could also complicate electronic filing. Proposals such as this frustrate the objective of reducing the paperwork burden and complexity of tax forms. Moreover, space on the income tax form is already allocated to maximize compliance. Mandating additional items could displace items crucial to the proper reporting and collection of tax. This could reduce compliance, limit the ability of the IRS to properly enforce the tax laws, and thus reduce tax receipts.

There are also a number of processing concerns presented by this bill. Unlike the Campaign Fund, taxpayers would be able to designate different amounts, based on their particular tax liabilities. Thus, the IRS would be required to devote significant resources to transcribing these designations. Amounts to be sequestered would be based upon estimates made by the Treasury Department of the aggregate amounts designated by taxpayers for the last taxable year ending before the beginning of that session of Congress. Given the May 1 deadline, these estimates would, by necessity, be imprecise (especially in the early years). In any particular fiscal year, the sequestration might exceed or be below the actual amounts designated by taxpayers. This would require adjustments to sequestrations to correct discrepancies between the estimates (and the sequestration based on those estimates) and actual designations.

In addition, some taxpayers are likely to make computational errors in determining the amount they wish to designate, potentially resulting in additional communications between those taxpayers and the IRS. Further complications would arise if the individual's tax liability is subsequently adjusted, potentially requiring changes to the sequestration percentage.

* * *

This concludes my prepared remarks. I would be pleased to respond to your questions.

Chairman RANGEL. We will now hear from Mr. Reischauer, the Congressional Budget Office.

STATEMENT OF ROBERT D. REISCHAUER, PH.D., DIRECTOR, CONGRESSIONAL BUDGET OFFICE

Mr. REISCHAUER. Thank you, Mr. Chairman, members of the committee. I appreciate the opportunity to appear here this afternoon.

With your permission I am going to submit my prepared statement for the record. This afternoon I will just touch on three of the points that are raised in that testimony.

Chairman RANGEL. Without objection.

Mr. REISCHAUER. My first point is that neither the Congressional Budget Office (CBO) nor anyone else can estimate the impact of H.R. 429 with any degree of assurance. The reduction in spending that would be required each year would depend on the number of taxpayers who chose to avail themselves of this option, whether these taxpayers chose to check off the maximum 10 percent or some lesser amount, and on the tax liability of those who chose this option.

Likely participation cannot be judged from the participation that we know about in other checkoff procedures; namely, the Presidential Campaign Fund checkoff at the Federal level or the numerous kinds of checkoffs at the State and local levels that support a variety of things, from wildlife conservation to prevention of child abuse.

Why do I say we can't use what we know from these checkoffs to determine likely participation in H.R. 429? There are several reasons. First, the existing checkoffs generally provide additional spending for a stated purpose, not a reduction in spending, as would be the case under H.R. 429.

Second, the existing checkoffs are directed at specific items, whereas H.R. 429 would affect all spending across the board, except Social Security, deposit insurance, and net interest.

Third, many of the existing State and local checkoff schemes at least require the taxpayer to pay more in total taxes, whereas the taxpayer's tax liability would be unaffected by the amount that he or she checked off under H.R. 429.

So we can't accurately predict the size of the savings that might result from this proposal. But we can estimate the maximum amount of spending reduction that could result if all taxpayers chose to check off the maximum 10 percent every year in the future and if the spending cuts were cumulative.

I should note that Congressman Walker, I believe, intends the spending cuts to work in this fashion; that is, to be cumulative each year. But I think the current language in the bill doesn't guarantee that that would be the case.

Under the two assumptions that I have just made, the spending reductions and the deficit cutback would be substantial, as Congressman Walker pointed out. They would amount to $53 billion in fiscal year 1995, $269 billion in 1998, and $913 billion in the year 2003; that is, we would reduce spending by that amount. That would reduce the deficit by that amount, and since the deficit isn't expected beyond 1997 to be as large as these checkoff amounts

could be, we would transform a deficit into a surplus and the actual level of the debt would begin to decline.

If we did embark on a massive reduction of the sort that I have just laid out, the government would clearly be imposing a significant and sustained amount of fiscal restraint on the economy, which would slow it down and lead to the lower interest rates that Mr. Hancock referred to, but not through the mechanism by which he would like to see those lower interest rates come about. By the year 2003, by CBO's estimates, the level of spending would be about 46 percent below baseline levels for the affected programs. In other words, we would be cutting the real value of Federal programs approximately in half over that period.

The second point I would like to make is that as H.R. 429 is currently drafted it is probably unworkable. The Treasury would find it difficult during the 2 weeks that it is given to tabulate the total checkoff amount contained in the roughly 120 million tax returns that it receives by April 15 so that OMB can during the two week period that it is given to come up with this amount for OMB to then do its sequester.

H.R. 429 also provides no clear mechanism for sequestering resources from such programs as Federal employee pensions, unemployment compensations, veterans' benefits, and aid to families with dependent children (AFDC) that now are exempted from sequestration under the current budget procedures.

Furthermore, a number of accounts that are subject to sequestration under H.R. 429 involve legal or constitutional obligations of the Federal Government that cannot be cut; for example, the salaries of Federal judges appointed under Article 3 of the Constitution. I should add that none of these is a fatal flaw. They could easily be changed by revising the bill. So the fact that I have said that H.R. 429 doesn't work as it is drafted doesn't mean that the concept doesn't work. It can be fixed up quite easily.

The final point that I would like to make is that H.R. 429 would represent a radical change in our constitutional system for making fiscal decisions. Currently, the Congress and the President decide each year on the appropriate level of taxes and spending. H.R. 429 would allow a limited and asymmetrical referendum on spending, one in which taxpayers would be allowed to vote to lower but not to raise spending.

Eligibility to participate in this referendum would be different from the criteria for voting for President or Members of Congress. A significant portion of the population—namely, those who do not file tax returns and those filers who have no tax liability, many of whom are poor or elderly—could not participate in this referendum.

On the other hand, foreigners with U.S. income who must pay taxes and children who have tax liability would be able to affect spending levels even though they could not vote in U.S. elections.

Moreover, the votes of those who were eligible to take part in the decisionmaking would be concentrated among those with the largest tax liability, many of whom might be relatively unaffected by cutbacks in government programs.

People in the top one-fifth of the income distribution account for about half of all adjusted family income and about three-quarters of income tax liability in our country. The top 5-percent account for

about one-quarter of all income but nearly half of the income tax liability. Thus, even if the bottom 95 percent of the population preferred to maintain or even increase spending, the top 5 percent of taxpayers could dictate substantial spending cuts under this proposal.

Let me conclude by noting that H.R. 429 is motivated by a desire to reduce the deficit and keep spending in check. There are other ways to accomplish these objectives, ways that do not constitute such a radical change in our constitutional system. They may be messier and require more work and more difficult decisions on the part of the elected lawmakers, but they are more likely to reflect the views of a majority of the people.

That completes my summary statement. I will be glad to answer any questions.

Chairman RANGEL. Thank you.

[The prepared statement follows:]

TESTIMONY OF ROBERT D. REISCHAUER
DIRECTOR
CONGRESSIONAL BUDGET OFFICE
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

Mr. Chairman and Members of the Subcommittee, I appreciate this opportunity to testify about the proposal to permit individual income tax payers to determine automatic reductions in federal spending. The proposal is contained in H.R. 429, introduced last January by Congressman Walker, and is intended to help reduce the deficit.

HOW WOULD THE PROPOSAL WORK?

H.R. 429 would allow taxpayers to check off as much as 10 percent of their individual income tax liabilities to go into a "Public Debt Reduction Trust Fund." The proposal would mandate automatic reductions in federal spending that are exactly equal to the total amount checked off by taxpayers. The bill would not increase or decrease income tax liabilities; it would affect only the spending side of the budget, not the tax side. It would require spending cuts across the board for all programs except Social Security, deposit insurance, and net interest, which are specifically exempt.

Establishing a trust fund alone has no budgetary effect. The deficit can be reined in only by substantive measures to trim spending or raise taxes; such actions would automatically curtail the Treasury's borrowing. If legislation does not cut spending or raise taxes, creating a special fund would not reduce the deficit. Thus, any reductions in deficits, debt, and interest costs connected with this proposal would stem wholly from the spending reductions that it might trigger.

The legislation puts such spending reductions on a swift timetable. For virtually all taxpayers, the tax year ends in December, and returns are due by the following April 15--April 15, 1994, in the case of income tax returns for 1993. The Treasury would have two weeks to estimate the total checkoff contained in roughly 120 million returns before reporting that total on May 1. Automatic across-the-board cutbacks in spending equal to the total amount checked off would begin the following October 1 (when the new fiscal year starts) or 15 days after the Congress adjourns to end its session, whichever is later.

In the period between May 1 and its adjournment, the Congress could substitute other spending reductions for the required sequestration, but it could not substitute revenue increases. The sequestration that is triggered by H.R. 429 would be in addition to any that might be required under other provisions of the Balanced Budget and Emergency Deficit Control Act--namely, any sequestration that might be necessary to enforce the discretionary spending caps, the pay-as-you-go rules for mandatory spending and revenues, or the maximum deficit amount. The same timetable would be repeated every year, expiring only when the public debt is paid off.

The mechanics of H.R. 429 are unclear or impractical in some respects:

- Requiring the Treasury to report on May 1 appears to be unrealistic. That date is just two weeks after the filing deadline and a full month before the effective deadline for processing most returns and refunds. At best, the Treasury could base its estimate on a sample of returns. The bill does not envision any corrections to the May 1 estimate that might be justified by a more complete tally, or by including taxpayers who ask for an extension or those who file amended returns.

- H.R. 429 subjects many programs to sequestration that under the current budget procedures are wholly exempt from automatic cutbacks, or whose reductions are now limited under special rules. A few examples are federal employees' pensions, unemployment compensation, numerous programs providing assistance to low-income people,

and Medicare. Thus, new definitions and procedures need to be spelled out stating how reductions are to be carried out in these programs. In addition, a number of accounts that would be subject to sequestration under H.R. 429 fund existing legal or constitutional obligations of the federal government that cannot be cut (for example, salaries of federal judges appointed under Article III of the Constitution).

o Finally, it is not clear how one year's cuts should affect outlays in future years--in other words, whether such cuts should "stick" or not. H.R. 429 provides that "all obligational authority reduced under this section shall be done in a manner that makes such reductions permanent." Congressman Walker's staff have indicated that this language is intended to ensure that the checkoff and the resulting sequestration for one year put spending on a *permanently* lower path. That is, programs would be barred from returning to the presequestration levels of benefits, appropriations, or payment formulas in fiscal years beginning after the year to which a sequestration initially applied. However, the bill needs to be clearer about the mechanics by which each direct spending account should be irrevocably reduced and about the adjustments that would be required in the discretionary spending caps or baseline calculations. In providing illustrative estimates of this proposal--including those in this statement--the Congressional Budget Office (CBO) has always based its analyses on the intended effect and not on a strict interpretation of the bill as it is drafted.

HOW MANY TAXPAYERS WOULD PARTICIPATE?

More fundamental than any questions about the mechanics of the checkoff is the big uncertainty: how many people would choose to participate? In this respect, experience offers little guidance. In fact, CBO has no way to estimate with any confidence how many taxpayers would elect the checkoff, for how much, and for how many years.

Other income tax checkoffs are not analogous. Checkoffs such as those for the Presidential campaign fund, or state and local income tax checkoffs, generally permit *additional* spending for the stated purposes. (Furthermore, with the exception of political campaign checkoffs, most require the taxpayer to pay more--generally by accepting a smaller refund.) I should also mention that existing checkoffs are not particularly popular. The percentage of federal income tax returns earmarking $1 or $2 for the Presidential Election Campaign Fund has slipped from about 28 percent in the early 1980s to less than 20 percent at present. State checkoffs for activities as varied as wildlife conservation, prevention of child abuse, and other purposes have average participation rates of around 1 percent to 3 percent.

Unlike these other checkoffs, however, under the provisions of H.R. 429 taxpayers would opt to cut, not increase, spending. Participants would have no choice about the mix of spending cuts, nor could they voice a desire for greater spending--factors that may affect their participation. The wording and location of the checkoff on the tax return and any accompanying instructions may prove crucial, and public information campaigns conducted by citizens' groups or interest groups could sway some choices.

ILLUSTRATIVE CALCULATIONS

Obviously, we have no crystal ball for judging participation in the income tax checkoff envisioned by H.R. 429. But on several occasions, at Congressman

Walker's request, we have provided illustrative estimates of the largest possible impacts. These assume that all taxpayers choose the checkoff in every year for the maximum 10 percent of liabilities.

Our illustrative estimates are based on our most recent baseline projections, published in September in *The Economic and Budget Outlook: An Update* (see Table 1). These projections sketch the likely path of spending and revenues if current laws and policies remain unchanged. They reflect the big package of deficit reductions enacted last August in the Omnibus Reconciliation Act of 1993. About half of federal government revenues come from individual income taxes, and the rest from other sources; only the former are tied to spending cuts under the plan. About one-third of spending would be exempt from automatic reductions under the proposal, and the remaining two-thirds potentially subject to cuts (although as previously noted, some of this spending would be impossible to cut because it fulfills legal or constitutional obligations).

TABLE 1. CBO BASELINE PROJECTIONS (By fiscal year, in billions of dollars)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Revenues											
Individual income taxes	512	545	593	628	661	699	735	778	811	851	894
All other	639	699	740	774	811	847	881	912	956	997	1,040
Total	1,150	1,244	1,332	1,403	1,472	1,547	1,617	1,690	1,768	1,848	1,934
Outlays											
Social Security a/	302	319	337	354	372	391	410	431	452	475	499
Interest a/	198	203	217	230	242	253	265	278	292	311	327
Deposit insurance a/	-26	14	-10	-10	-8	-4	-4	-4	-3	-3	-3
Medicare	143	160	178	196	216	239	264	292	323	357	395
Medicaid	76	88	100	112	125	139	155	172	190	210	231
Other mandatory programs	243	241	240	239	256	266	275	285	295	305	316
Discretionary spending	547	542	542	548	547	547	564	581	598	616	634
Offsetting receipts b/	-67	-70	-74	-76	-80	-85	-89	-93	-97	-102	-107
Total	1,416	1,497	1,529	1,592	1,670	1,747	1,840	1,941	2,050	2,168	2,292
Deficit (-) or Surplus (+)	-266	-253	-196	-190	-198	-200	-223	-251	-282	-320	-359
Debt Held by the Public	3,249	3,507	3,713	3,919	4,137	4,357	4,601	4,873	5,176	5,517	5,896
Memorandum:											
Total Nonexempt Outlays	1,009	1,031	1,060	1,094	1,144	1,192	1,259	1,329	1,406	1,488	1,576

SOURCE: Congressional Budget Office, September 1993 baseline projections. The projections assume compliance with the discretionary spending caps in the 1990 Budget Enforcement Act and the Omnibus Budget Reconciliation Act of 1993.

a. Program exempt from sequestration under Congressman Walker's proposal

b. Offsetting receipts are effectively exempt because they are not associated with sequesterable budgetary resources.

The proposed income tax checkoff would have a delayed effect on spending and could not reduce the deficit until fiscal year 1995. Recall that taxpayers will file returns for 1993 liabilities by next April 15. Under the proposal, the Treasury would inform the Congress on May 1 of the required cuts; sequestration, if any, would not begin until October 1994, the start of fiscal year 1995 (or somewhat later if the Congress is still in session). Under the same assumptions that Congressman Walker previously specified, spending cuts could total as much as $51 billion in 1995, the first year--or 10 percent of 1993's individual income taxes (see Table 2). They could reach almost $250 billion in 1998 and--together with interest savings--could result in a balanced budget. If taxpayers continued to mark the checkoff, presumably to pay off the public debt, sequestration could exceed $700 billion in 2003.

TABLE 2. ILLUSTRATIVE MAXIMUM EFFECTS OF PROPOSAL (By fiscal year, in billions of dollars)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Maximum Effect on Deficit and Debt											
Assumed Checkoff Amount a/	51	55	59	63	66	70	74	78	81	85	89
Automatic Spending Cuts b/											
Nonexempt programs c/	0	0	-51	-107	-172	-242	-321	-409	-506	-613	-731
Interest savings	0	0	-1	-6	-15	-27	-45	-68	-98	-136	-182
Total	0	0	-53	-113	-186	-269	-366	-477	-604	-749	-913
Resulting Outlays	1,416	1,497	1,476	1,479	1,484	1,478	1,474	1,463	1,445	1,419	1,380
Deficit (-) or Surplus (+)	-266	-253	-144	-76	-12	69	143	227	323	429	554
Debt Held by the Public	3,249	3,507	3,661	3,753	3,785	3,736	3,614	3,409	3,107	2,699	2,166
Maximum Effect on Sequesterable Programs											
Baseline Outlays for Nonexempt Programs d/	1,009	1,031	1,060	1,094	1,144	1,192	1,259	1,329	1,406	1,488	1,576
Cumulative Sequestration c/	0	0	-51	-107	-172	-242	-321	-409	-506	-613	-731
Resulting Outlays for Nonexempt Programs	1,009	1,031	1,008	986	972	950	937	920	900	874	845
Percentage Reduction	0	0	-5	-10	-15	-20	-26	-31	-36	-41	-46

SOURCE: Congressional Budget Office

a CBO has based this analysis on the assumption, previously specified by Congressman Walker, that all individual income tax payers would choose the maximum checkoff, 10 percent of liabilities. Although tax collections (on a fiscal year basis, as shown earlier in Table 1) are not the same as liabilities (which are on a calendar year basis), they are similar enough for this illustration.

b. Taxpayers would designate the checkoff in returns filed on or before April 15, and sequestration would begin the following October (or at the end of the Congressional session, if later). Hence, there is a two-year lag between the time taxpayers incur liabilities and the spending cuts that they could order.

c According to Congressman Walker's staff, it is intended that a single year's checkoff should generate savings in all future years, as programs are barred from returning to previous spending plans or benefit formulas. Additional legislative language would be needed to achieve this result.

d In Congressman Walker's proposal, only Social Security, deposit insurance, and net interest are exempt. Offsetting receipts are effectively exempt because they are not associated with sequesterable budgetary resources. The Congress can substitute other spending reductions (but not revenue increases) for the required sequestration.

Such outcomes would be a dramatic departure from the current budgetary path. In 2003, the cumulative sequestration could exceed 45 percent of nonexempt spending; the government could run a surplus of more than $500 billion; and only $2.2 trillion of debt might remain (versus $5.9 trillion under the current outlook). A corollary is that outlays would have long since stopped growing. In fact, nonexempt outlays--all spending except that for Social Security, net interest, and deposit insurance--would fall in every single year after 1995. Again, this illustration portrays the largest possible effects of the proposal, and more modest assumptions about participation would shrink the savings.

CHANGE IN FISCAL DECISIONMAKING

Decisions about fiscal matters--the level and mix of taxes and spending--are currently made in the same manner as other important decisions of the federal government. Members of the Congress and the President propose, consider, and eventually enact laws that determine the fiscal policy of the federal government. Citizens participate through elections, in which every eligible individual has one vote, and by communicating their preferences to elected

representatives in a number of ways. This proposal would remove one of the critical decisions about fiscal policy--the level of spending--from this process. Under the proposal, this decision would be made by means of the income tax checkoff.

Not only would this process circumvent the established system of representative government, it would drastically alter the relative influence of citizens on this decision. Unlike Presidential and Congressional elections, a relatively small number of taxpayers will cast most of the votes at stake. People in the top one-fifth of the income distribution account for about half of all adjusted family income and about three-quarters of all income tax liabilities; the top 5 percent account for about one-quarter of all income and nearly half of income tax liabilities. Their choices on the income tax checkoff would dominate the totals in dollar terms. In fact, this distribution of income tax liabilities could lead to troubling results. If the top 5 percent of taxpayers (who pay nearly one-half of all individual income taxes) all chose the maximum checkoff, they could generate almost half the possible savings presented in the illustration--even if the other 95 percent preferred to maintain or even to increase spending. The latter group would be virtually voiceless in this exercise.

CONCLUSIONS

The illustrations I have provided here, like all of CBO's previous work on this topic, are purely hypothetical. Neither CBO nor other analysts have any idea how many taxpayers would actually elect the checkoff or the tax liabilities of those who would choose it. Participation could change dramatically as spending cuts deepened and the budget moved into surplus.

The more compelling question is not how much this proposal would cut the deficit but whether it is an appropriate way for a representative government to make spending decisions. Our constitutional system provides that popularly elected representatives make choices about the levels and mix of spending and taxes. H.R. 429 would give extra votes to some taxpayers, above and beyond their vote for elected representatives, but would structure this vote in an asymmetric fashion; only spending cuts--but no spending increases and no tax increases--are on the ballot. The implied philosophy has been summed up as "one dollar, one vote." We hope that in its considerations the Congress will focus on the philosophical and institutional issues posed by this legislation, rather than on the admittedly speculative budget numbers. It should also recognize that there are other ways to reduce the budget deficit, ones that have been used with some success in 1990 and 1993.

Chairman RANGEL. Mr. Hancock.

Mr. HANCOCK. Mr. Chairman, let my ask a question. It seems like that whenever we are looking for money to spend, it is easy to come up with a way to do it, but when we are talking about saving the taxpayers money, it is so complicated we can't do it. Can you answer me that? You say some taxpayers are likely to make computational errors. Is that a reason not to do this?

Mr. FOLEY. I think that the administrative concerns are not as important as some of the other concerns that are mentioned in my testimony. I think that the impact that this would have on the legislative and the political process are far more significant than some of the administrative concerns that are mentioned.

Mr. HANCOCK. I recognize some validity in your statement that 5 percent of the people could make decisions for the other 95 percent. I guess that does happen. But here we are with 435 people in the Congress making decisions for 100 percent of the country, so maybe that isn't that bad a percentage.

Mr. REISCHAUER. But you are elected.

Mr. HANCOCK. I beg your pardon?

Mr. REISCHAUER. You are elected. That is a difference. I think. I hope.

Mr. HANCOCK. You got a valid point there, but sometimes you take a look at some of these campaigns and you wonder how we got elected, too. All right.

It just seems to me that we are going to have to address this national debt issue. I don't know how we are going to go about doing it. I think it is one of the most serious things that we could look at and I think that there is, as Congressman Walker testified, people in his district are very concerned about it. It may differ district by district, I don't know. The most important issue, is how are we going to get the fiscal restraints necessary to get this thing under control.

Now, I think we ought to just look at all options and try to make it work rather than to try to come up with the reasons that it won't work.

Mr. REISCHAUER. You took a big step this summer when you passed the deficit reduction package in the reconciliation bill. You are going to have another opportunity when a vote on the Penny-Kasich proposal comes up.

Mr. HANCOCK. Here again, I think that is a matter of opinion.

Mr. REISCHAUER. This proposal is, in a sense, a "look, Ma, no hands," form of budgeting; somebody else is making me do it. And it is your job, isn't it?

Mr. HANCOCK. Well, it is my job to try and that is what we have been trying to do. And I think that everybody is actually concerned about it. It is just a case of how we go about doing it.

I just think on something like this we ought to look at it from a standpoint of would it work from a positive standpoint rather than a negative standpoint.

Mr. REISCHAUER. I wasn't suggesting that it was too complicated to work. It is beautifully simple.

Mr. HANCOCK. Thank you.

Chairman RANGEL. Mr. Payne.

Mr. PAYNE. Thank you, Mr. Chairman.

Mr. Reischauer, let me followup on the questions I had for Mr. Walker just a minute ago dealing with the mechanics of this. Let me ask this in another way. It seems to me rather than having a trust fund, that as long as we are in a deficit mode you could accomplish exactly the same thing if at the bottom of the tax form you had an opportunity to say, I want you to reduce spending up to 10 percent of whatever your tax liability is. And if that happened, then you would end up in exactly the same place without going through the trust fund.

Mr. REISCHAUER. The existence of the trust fund is not crucial to the success of this proposal. Basically this is a vote by the taxpayers to reduce spending by a set amount. When spending is reduced by that set amount, the size of the deficit goes down and the amount of borrowing that the Federal Government has to do will go down by an equivalent amount. And I think the trust fund concept makes it look neater and has some cosmetic appeal.

I would say the same thing about the President's proposal along these same lines a few months earlier in that it really doesn't affect the mechanics of what is going on. It doesn't make the cuts real or not. What makes the cuts real in this proposal is the fact that an across-the-board sequestration is required at the beginning of the fiscal year.

Mr. PAYNE. You have further said that assuming that every taxpayer checked off the maximum amount, that over 10 years the spending would be reduced to an amount 47 percent below the baseline?

Mr. REISCHAUER. Correct. Forty-six percent below CBO's baseline level.

Mr. PAYNE. OK. Now, that is——

Mr. REISCHAUER. That is spending on everything except deposit insurance, net interest, and Social Security.

Mr. PAYNE. Admittedly, that is an unlikely occurrence, but assuming that something like that happened. What is your view as an economist of what that means for our national economy?

Mr. REISCHAUER. As I suggested, if we had that magnitude of reductions in the government sector year after year, they would dampen the economy over this period substantially.

To be sure, we would increase national saving and there would be a benefit from this several decades into the next century, because we would be building up the private capital stock of our country and increasing the growth rate. As Mr. Walker said, in the long run living standards would be improved, but in the short run there would be a good deal of dislocation.

Also, ask yourself how these spending cuts are going to be meted out. The fallback position of this piece of legislation is that there would be across-the-board cuts.

If there were, they would affect Government investment activities such as highways, R&D, and education programs, which do have some impact on the growth potential of our economy in the long run.

If, however, on the other hand, when faced with this requirement to reduce spending by certain amounts the Congress chose this bill's other option, which is to make decisions about spending on

particular items, and they concentrated those reductions on consumption-oriented spending, that impact would not be there.

But I am very skeptical that the Congress, which is having a hard time deciding on individual spending cuts now, when faced with this kind of situation would suddenly be able to allocate these spending decisions among programs in some other way than a formulistic across-the-board kind of procedure.

Mr. PAYNE. Thank you, very much.

Chairman RANGEL. Mr. McCrery.

Mr. MCCRERY. Thank you, Mr. Chairman.

Before I ask some questions of the witnesses, I have two pieces of correspondence; one from the National Federation of Independent Business and another from the National Taxpayers Union that I would like to submit for the record at this time.

Chairman RANGEL. Without objection.

[The information follows:]

1943 1993

NFIB

National Federation of
Independent Business

November 1, 1993

The Honorable Robert S. Walker
U.S. House of Representatives
Washington, DC 20515

Dear Representative Walker:

On behalf of the over 600,000 members of the National Federation of Independent Business (NFIB), I strongly encourage you to support Congressman Bob Walker's bill, H.R. 429, to reduce the national debt and deficit through an income tax checkoff system. In a June 1993 survey of NFIB members, 78% of those who responded supported legislation to designate up to 10 percent of their tax payment to reduce the debt.

H.R. 429 would allow taxpayers to indicate on their annual tax forms that up to 10 percent of the payment should go toward reducing the national debt. A debt retirement trust fund would be established. In addition, the bill requires Congress to reduce federal spending by the total amount contributed to the fund.

NFIB members consider debt and deficit reduction to be a top priority. They believe that a checkoff system would give individual taxpayers the means to directly reduce the growth in government spending and cut the debt and deficit. It is estimated that the tax checkoffs could potentially balance the budget in six years.

In fact, the Congressional Budget Office has stated that this legislation would significantly contribute to slowing growth in spending. The sequestration provision alone would ensure that Congress would be forced to reduce spending if it fails to voluntarily do so.

Again, on behalf of your small business owner constituents, I urge you to cosponsor H.R. 429 to reduce the national debt and restore fiscal responsibility to our economy.

Sincerely,

John

John J. Motley III
Vice President
Federal Governmental Relations

600 Maryland Ave. S.W., Suite 700 • Washington, DC 20024 • 202-554-9000 • Fax 202-554-0496

The Guardian of Small Business for Fifty Years

NATIONAL TAXPAYERS UNION

November 11, 1993

The Honorable Robert S. Walker
2369 Rayburn House Office Building
Washington, DC 20515-3816

Dear Representative Walker:

The National Taxpayers Union, America's largest taxpayer organization, is pleased to reaffirm its wholehearted support for H.R. 429, the Taxpayer Debt Buy-Down Act, which you are sponsoring, along with 88 of your House colleagues.

As our chairman, Jim Davidson, said in our initial endorsement statement in February, you and your cosponsors should be praised for "having the courage to allow the people to directly assume responsibility for the fiscal well-being of their nation." H.R. 429 would provide every American taxpayer with a personal veto pen with which to break the spending gridlock and fulfill the popular mandate for deficit reduction.

Congress should balance the budget, make the tough choices, and reduce spending. Since Congress appears incapable of any significant deficit reduction, taxpayers should be given the opportunity.

Taxpayers are ready and willing to make spending cuts. All they need is the appropriate mechanism H.R. 429 provides. We anticipate at least $9 billion in spending reductions in just the first fiscal year after H.R. 429 becomes law. In future years, this legislation could actually balance the budget.

In short, H.R. 429 is an innovative, practical cure for Washington, D.C.'s deficit paralysis. The National Taxpayers Union strongly endorses it and urges the Select Revenue Measures Subcommittee and the full Way and Means Committee to move it to the House floor for passage.

Sincerely,

Al Cors, Jr.

Al Cors, Jr.
Director, Government Relations

AC/br

325 PENNSYLVANIA AVENUE • SOUTHEAST • WASHINGTON DC 20003 • TELEPHONE 202-543-1300 • FAX 202-546-2086

Mr. McCRERY. Just following on, Mr. Reischauer, to Mr. Payne's questions, the numbers that you cited in the 46 percent reduction from the baseline, are based upon the maximum utilization of this program by the taxpayer?

Mr. REISCHAUER. Right. And it would be highly unlikely, I think, that if this were in place that numbers that large would come about.

Mr. McCRERY. Exactly. So what we are talking about is probably not too close to a 46 percent reduction but somewhere under that. And I agree with your assessment that such a radical departure from the baseline may have adverse economic consequences.

How would these numbers, though, differ from, say, a real freeze in discretionary spending? We will start with discretionary spending. Do you have any idea what those numbers would give us? By a real freeze, I am allowing for inflationary growth but only inflationary growth.

Mr. REISCHAUER. That is what the traditional baseline is. But until 1998, we will have discretionary spending controlled by the caps that were in the budget agreement. That is basically a nominal freeze over the next 5 years. What you signed on to in August is no inflationary growth for the next 45 years.

Mr. McCRERY. We are not going to have inflationary growth in discretionary programs in the next 5 years?

Mr. REISCHAUER. No. Overall, remember. This will probably involve a nominal decrease in defense and some increase in domestic discretionary programs.

Mr. McCRERY. So if we were to get additional savings, we would have to get those probably out of mandatory programs. I mean, if you are going to go much beyond what is already in the baseline in terms of cuts you probably would get them out of mandatory programs if you get big savings.

Mr. REISCHAUER. This program would affect all mandatory programs. There would be an across-the-board cut, as I believe the chairman pointed out, in Medicare, food stamps, AFDC, unemployment insurance, and veterans' benefits.

Mr. McCRERY. Right. The only mandatory program it would not affect——

Mr. REISCHAUER. Is Social Security.

Mr. McCRERY [continuing]. Is Social Security. And isn't that a realistic view, though? I mean, given the fact that we have already frozen, so to speak, discretionary spending. If we are going to get much more spending in spending cuts over the next five years or so, they are probably going to come out of mandatory programs, aren't they? Be it Medicare, veterans, whatever. I mean, that is what the Kasich-Penny plan looks at, is cutting mandatory programs, primarily. Isn't that correct?

Mr. REISCHAUER. Yes. But I would not hazard a guess as to what the Congress will do over the next five years.

Mr. McCRERY. I understand. But my point is if we are to get meaningful savings from the baseline, it is likely that we would have to go to mandatory programs to get those savings.

Mr. REISCHAUER. I think that is a pretty fair statement just based on the arithmetic of the situation.

Mr. McCRERY. However, you can't make a political judgment.

Mr. REISCHAUER. We are already cutting defense at a pretty fast clip in nominal terms. Nondefense discretionary spending is less than $250 billion of 1.5 trillion dollars' worth of spending. So in a certain respect it is chump change. You can whack the heck out of it and you haven't generated much savings. There is $700 to $800 billion of mandatory spending, and the arithmetic would suggest that if you want a big number you have to go where the big spending is.

Mr. MCCRERY. That is right. So it is not so drastic that this approach would call for cuts in mandatory programs if our objective is to cut spending somewhere over the next five years.

Mr. REISCHAUER. No, I would not raise object to this bill on the basis that it spread the net of cuts across all programs. In fact, I think that is a step in the right direction. One of the problems with the original Gramm-Rudman sequestration mechanism was that it concentrated the cuts on a very small segment of the budget so that in the Gramm-Rudman debate, defenders and protectors of the unaffected programs really had little or nothing at stake.

Mr. MCCRERY. Exactly.

Mr. REISCHAUER. To its credit, this does say that everything is under the net, except Social Security, net interest, and deposit insurance.

Mr. MCCRERY. Right. And in fact, this program is really like Gramm-Rudman with an expanded base, isn't it?

Mr. REISCHAUER. I am not sure I would go that far.

Mr. MCCRERY. Except the numbers are variable; we don't know what the numbers would be.

Mr. REISCHAUER. The Gramm-Rudman targets were voted on by the people's elected Representatives.

Mr. MCCRERY. In practice, it would work like Gramm-Rudman if we made the cuts. If we decided the cuts, we were in no trouble. But if we didn't, there was a sequestration.

Mr. REISCHAUER. I assume you put quotes around "works like Gramm-Rudman." You would say it didn't work. Maybe we should go back and ask why Gramm-Rudman didn't work, and if it didn't work, maybe this one wouldn't either.

Mr. MCCRERY. Maybe it wouldn't. But just for the sake of argument, in this case we would have hundreds of thousands of American taxpayers saying, wait a minute, I said on my tax return that I want you to cut spending and you haven't done it. Whereas, with Gramm-Rudman, it was just Congress telling ourselves we think we ought to cut spending.

Mr. REISCHAUER. But remember, you could have hundreds of thousands of taxpayers saying that and tens of millions saying, I didn't say that. There are 120 million taxpayers and if 600,000 say, "I want you to cut," but 119 million say, "I didn't vote for cuts on my tax return," and cuts happened anyway, there might be a problem in our constitutional system.

Mr. MCCRERY. Oh, I think you exaggerate the constitutional crisis that would evolve.

Mr. REISCHAUER. Somebody may say that Ross Perot just voted to cut the bejesus out of spending, but what about the other *x* million people in Texas?

Mr. McCrery. It is a valid point, but I think it is also a valid point that you would have at least marginally more political will or more political impetus to cut spending under this program than you would have under Gramm-Rudman. It is debatable but it is not really that important.

I would like to get on to some of the economic considerations because I do agree and I am a proponent of a balanced budget amendment, but the further along we get, the harder it is for me to sign on to a balanced budget amendment that says, let's balance the budget in five years, because I recognize it would be very difficult to reach that goal without serious economic adverse consequences.

As long I have you here, if you were to design a balanced budget amendment—let's assume you agreed with the concept—of a how would you do it?

Mr. Reischauer. You have a great leap of faith.

Mr. McCrery. I have a great imagination. Would you design it over 10 years? Fifteen years? What do you think? How long a span of time do you think would be necessary for us to reach a balanced budget without disrupting the economy unnecessarily?

Mr. Reischauer. That is a hypothetical question. It depends on all sorts of other things that affect the U.S. economy. Is it impossible to do in a decade without harming the U.S. economy in a serious way? No, it isn't.

Mr. McCrery. It is not possible.

Mr. Reischauer. No, it is possible to do that. If we wanted to balance our budget by the year 2003, you would have to enact sometime around 1995 or 1996 a deficit reduction package that is about one-and-a-half times as large as the one you enacted in August of this year. That is a considerable hurdle, but it is not impossible and you could phase it in over the ensuing 6- or 7-year period.

Mr. McCrery. OK. So you think we could get that about 2003 with only a $750 billion reduction package in 1995? Is that what you just said?

Mr. Reischauer. Yes.

Mr. McCrery. OK.

Mr. Reischauer. My estimate of how much was saved in the August package isn't quite as, shall I say, robust as the administration's number.

Mr. McCrery. I am sorry. Maybe it should be 650.

Mr. Reischauer. Six hundred would be more like it.

Mr. McCrery. Now, would it matter in your judgment as an economist whether that package were composed of spending cuts only or taxes only or a combination of taxes and spending cuts?

Mr. McCrery. Not as a politician but as an economist would it matter.

Mr. Reischauer. As an economist I would say do whatever you can; that the mix isn't that important. What is more important is probably the composition of the taxes and the composition of the spending cuts. Don't cut programs that might involve government investment-type activities. Don't raise taxes that will damage saving incentives.

Mr. McCrery. So in other words spending cuts should be primarily——

Mr. REISCHAUER. Consumption-oriented. And tax increases should do the most they can to reduce consumption.

You have other objectives because you get into distributional considerations immediately. Everybody doesn't have the same marginal propensity to consume and not all government programs go evenly to the entire population. And there are other considerations. But just from an economics standpoint, those are the two pieces of advice I would give you.

Mr. MCCRERY. OK. Well, looking at the Walker bill and looking at your computation of the maximum utilization of the Walker bill, it appears that we are not too far off base. I mean, if these numbers came in at two-thirds the maximum, they would approach the $650 billion figure that you outlined just now; would they not?

Mr. REISCHAUER. Yes.

Mr. MCCRERY. So maybe Walker is not too far off base if we wanted to go purely with spending cuts to arrive at a balanced budget by 2003.

Mr. REISCHAUER. I don't think the issue here is how fast the deficit should be reduced or spending cuts versus tax cuts, but it is really one of decisionmaking; how should decisions on these issues be made? Should they be made on the basis of a referendum and should that referendum be asymmetrical so we only have some people voting, who can only express an opinion in one direction? Or should the country stick with the existing decisionmaking system and try to stiffen its backbone.

Mr. MCCRERY. You both make valid points with respect to the makeup of those that would be voting on the level of spending cuts. Some of us would argue that everybody in Congress just about agrees we ought to cut spending, and so if this were a useful tool in providing us with the leverage, the political leverage to start, it would be OK. Rather Machiavellian, I suppose, but we would argue that.

Speaking of the timing in which we agree to a balanced budget, I just want to point out, and you can correct me if you think I am wrong, but right now we are using various trust fund balances, in particular the Social Security Trust Fund, to mask the true size of operating deficit at the Federal level. And at some point in the early 21st Century, that the trust fund balances will decline and we are going, in fact, have to start using general revenues to supplement those trust fund moneys as the baby boom generation retires and we start having to spend more than we are taking into the Social Security System.

Does that bother you at all, the fact that we have high deficits, and approaching the time when we are not going to be able to borrow money, so to speak, from those trust funds to supplement operating funds?

Mr. REISCHAUER. I guess I have more faith in you than you have. In 1990, you made a big step in the direction of deficit reduction, came back and revisited the issue in 1993, and took another step. If in 1995 or 1996 you come back and take another step, then maybe a half step later on in the decade, the Nation will face a very different situation in the next century than it does now.

Add to that the possibility—I wouldn't say probability—that we might do something about the health care system in our country,

and the situation at the end of the first decade of the next century might not look as bleak.

Mr. McCRERY. I hope it doesn't. But if we were not to address the continuing high deficits, and we are borrowing from those trust funds now, won't we, at some point in the future have to supplement those trust funds? Doesn't that make it a little more urgent to deal with it now while we have that luxury?

Mr. REISCHAUER. This is a different discussion, but the fact that the Congress has chosen to divide the country's revenues and expenditures into two pots—a Social Security pot and an everything else—doesn't bother me as an economist, because what matters is the impact of all Government activity on the economy. The issue is how much we are taking in in taxes and how much we are spending overall, not what we are doing in these two different buckets.

Mr. McCRERY. I agree. But let me try to make myself more clear.

Mr. REISCHAUER. Given the fact that the United States will have a large retired population in the future, now is the time to be building up our economy and our capital stock so that future taxpayers will have the wherewithal to provide the support payments that that retired generation needs.

It is a tragedy that during the 1980s and 1990s, we didn't shift our fiscal stance from running deficits of 1 to 2 percent of GDP—which is what we averaged from World War II to 1980—into balance or mild surplus, so we could build up the capital stock of the country.

Mr. McCRERY. Thank you.

Chairman RANGEL. Thank you.

Mr. Foley, when you talked about the difficulties in administration, did you give a cost estimate?

Mr. FOLEY. No, I did not.

Chairman RANGEL. Mr. Reischauer, on another subject, are you working on some materials for me?

Mr. REISCHAUER. We are. My staff has been meeting with your staff, and I think the ball is in your staff's court to specify exactly how we should respond to your letter.

Chairman RANGEL. OK. Well, that is easy to do.

Mr. REISCHAUER. They met last week.

Chairman RANGEL. Thank you very much.

I think we ought to recess for 10 minutes and go vote, and then in that time we will take the last panel. Paul Merski is here, Tom Schatz, and Norman Ture. We will recess, go vote, and then return.

[Recess.]

Chairman RANGEL. We will continue the hearing.

Paul Merski, Citizens for a Sound Economy; Thomas Schatz, Council for Citizens Against Government Waste; Norman B. Ture, Institute for Research on the Economics of Taxation.

All of your statements will be entered in the record in their entirety. You may present your testimony in the way you feel most comfortable.

Mr. Merski.

STATEMENT OF PAUL G. MERSKI, DIRECTOR OF FISCAL POLICY, CITIZENS FOR A SOUND ECONOMY

Mr. MERSKI. Thank you, Mr. Chairman. I appreciate the opportunity to testify today.

My name is Paul Merski. I am here on behalf of the 250,000 members of Citizens for a Sound Economy, a nonprofit, nonpartisan citizens advocacy group based here in Washington.

As you may know, our members throughout the country fought long and hard to help reduce Federal deficit spending. We give our full support to H.R. 429, a proposal that would empower taxpayers directly to help reduce the national deficit and debt without tax increases by reducing Federal spending.

Understandably, the American taxpayer has become increasingly frustrated at the inability of policymakers to halt the trend of Federal deficit spending. Including the most recent budget deal, OBRA 1993 signed into law by President Clinton on August 10, there has been no less than six major budget deals enacted over the past decade that were all intended to reverse the trend of deficit spending and to bring the Federal budget into balance. While it may be too early to see the results of the Clinton budget deal that included a record tax hike, the failures of similar attempts to reduce the deficit are quite clear.

Under the guise of deficit reduction, combinations of major tax hikes and promised spending cuts were enacted by Congress in 1982, 1984, 1985, 1987, 1989, and 1990. Each and every time the results were actually the same: greater tax burdens, increased spending, and larger deficits.

Congress' own frustration with the persistent budget deficit situation was vented with the passage of the original Gramm-Rudman-Hollings Act in 1985. GRH contained an automatic sequester mechanism that was intended to cut spending even when Congress could not.

Unfortunately, even this seemingly foolproof mechanism was subverted by policymakers when an actual $16 billion sequester would have been triggered in 1989. The sequester was simply replaced by a new budget deal that allowed Congress to avoid any tough spending cuts, raise taxes, and stretch out the balanced budget target date further into the future. The budget controls in GRH were further weakened and eliminated by subsequent budget deals that left taxpayers with higher tax burdens and little, if any, deficit reduction to show for if.

So the history lesson of the budget deal approach to deficit reduction is clear. Tax increases that are matched with promised spending cuts have not reduced the deficit. Inevitably, the promised spending cuts either never materialize or are offset by new spending increases in the budget.

President Clinton's recent budget deal once again has paired immediate tax hikes, even retroactive tax hikes, with the promise of spending cuts in the future. However, as history has proven, the only spending cuts that can be counted on are reductions in the budget authority of the current fiscal year, not promised future reductions from increased spending baselines four or five years down the road.

Taxpayers would actually have some recourse if H.R. 429 was passed. While taxpayers may feel betrayed and helpless in their attempt to reduce deficit spending, the 10 percent checkoff plan would provide them with a unique opportunity to become directly involved in reducing deficit spending.

All taxpayers by the means of a simple checkoff on their return could dedicate up to 10 percent of their tax liability specifically to pay down the Federal debt. It is a simple fact, until deficit spending is completely eliminated, the national debt will only continue to grow.

Currently, one of every seven dollars taxpayers send to Washington must be spent just to pay interest on our national debt. The uniqueness of the 10 percent checkoff approach for deficit reduction is that it breaks from the traditional call for more tax revenues that have in the past actually fostered spending increases rather than reductions. The taxpayers' 10 percent checkoff would not represent any new tax liability or burden.

It is a simple matter of voluntarily choosing between 1 and 10 percent of your existing tax liability to help reduce the deficit and debt. The key to the plan is that it is a voluntary proposal that lets taxpayers themselves decide their contribution to deficit reduction. Nothing is mandated until taxpayers designate it by exercising their checkoff option.

The plan makes sense particularly in light of our high tax burden and high spending levels. Clearly there is plenty of room for additional spending cuts in our $1.5 trillion budget.

Despite all the claims of scrimping and savings in President Clinton's recently passed five-year plan, Uncle Sam will spend more, not less, over this same period. In the current fiscal year the Federal Government will spend $1.5 trillion. By 1998, Federal spending will have risen to $1.75 trillion. In fact, the claimed spending cuts touted in Clinton's economic plan, about $237 billion, excluding the user fees, represents only 2.9 percent of the more than $8 trillion in planned spending during that time.

There are plenty of additional spending cut plans on the table. A bipartisan plan by Representatives Tim Penny and John Kasich outlines $103 billion in potential savings. Senators Kerrey and Hank Brown are proposing $109 billion in savings.

Vice President Gore offers another $9 billion in savings under his reinventing government plan. And CSE itself has proposed several spending cut options that would each reduce Federal outlays by more than $70 billion over 5 years.

I am afraid that without additional controls on the Federal budget process, there is little reason for taxpayers to believe that the chronic deficit situation will improve significantly. In addition to the 10 percent checkoff plan, CSE's members also support a balanced budget amendment, particularly with tax limitations, and granting a line item veto to the President.

Taxpayers subjected to the two major tax increases in 1990 and 1993 should at least be granted the ability to make sure that the deficit reduction promised to them is achieved. I think the 10 percent checkoff plan would provide a good option for them to see that spending cuts are actually made.

I thank the committee for this opportunity to testify and would be glad to answer any questions.

[The prepared statement follows:]

Testimony on the Proposed "Taxpayer Debt Buy-Down Act" (H.R. 429)

By Paul G. Merski
Citizens for a Sound Economy

Before the
The Subcommittee On Select Revenue Measures
of the
Committee On Ways And Means, U.S. House Of Representatives

November 16, 1993

Mr. Chairman and Members of this Committee, thank you for the opportunity to speak today before this subcommittee. My name is Paul Merski, and I am here on behalf of the 250,000 members of Citizens for a Sound Economy (CSE), a non-profit, non-partisan citizens advocacy group based in Washington, D.C. Our members throughout the country have fought long and hard to help reduce federal deficit spending. We give full support to H. Res. 429, a proposal that would empower taxpayers directly to help reduce the national deficit and debt without tax increases and by reducing federal spending.

Introduction

Understandably, the American taxpayer has become increasingly frustrated at the inability of policymakers to halt the trend of federal deficit spending. Including the most recent budget deal, (the Omnibus Budget Reconciliation Act of 1993 signed into law by President Clinton on August 10), there have been no less than six major budget deals enacted over the past decade that were intended to reverse the trend of deficit spending and to help bring the federal budget into balance. While it may be too early to see the results of President Clinton's recent budget deal that included a record tax hike, the failures of similar attempts to reduce the deficit are quite clear.

Under the guise of deficit reduction, combinations of major tax hikes and promised spending cuts were agreed to by Congress in 1982, 1984, 1985, 1987, 1989, and 1990. Each and every time the results were the same: greater tax burdens, increased spending, and larger deficits. Congress' own frustration with persistent budget deficits was vented with the passage of the original Gramm-Rudman-Hollings Act (GRH) in 1985. GRH contained an automatic sequester mechanism that was intended to cut spending even when Congress could not.

Unfortunately, even this seemingly fool-proof mechanism was subverted by policymakers when an actual $16 billion sequester would have been triggered in 1989. The sequester was simply replaced by a new budget deal that allowed Congress to avoid any tough spending cuts, raised taxes, and stretched out the balanced budget target date further into the future. The budget controls in GRH were further weakened and eliminated by subsequent budget deals that left taxpayers with higher tax burdens and little if any deficit reduction to show for it.

The history lesson of the "budget deal" approach to deficit reduction is clear. Tax increases matched with promised spending cuts have not reduced the deficit. Inevitably, the promised spending cuts either never materialize or are offset by new spending increases in the budget. President Clinton's recent budget deal once again has paired immediate tax hikes (even retroactive tax hikes) with the promise of spending cuts in the future. However, as history has proven, the only spending cuts that can be counted on are

reductions in the budget authority of the current fiscal year, not promised future reductions from increased spending baselines four or five years down the road.

Taxpayers' Recourse

While taxpayers may feel betrayed and helpless in their attempt to reduce deficit spending, H. Res. 429 (the 10-percent checkoff) would provide them with a unique opportunity to become directly involved in reducing deficit spending. All taxpayers, by means of a simple checkoff on their tax return, could dedicate up to 10 percent of their tax liability specifically toward the payment of the federal budget deficit.

When the deficit is paid down and the budget is balanced, the funds would then go to reducing the national debt, which is now well over $3 trillion and growing. It's a simple fact, until deficit spending is completely eliminated, the national debt will only continue to grow. Currently, one of every seven dollars taxpayers send to Washington must be spent just to pay the interest on our national debt.

The uniqueness of the 10-percent checkoff approach to deficit reduction is that it breaks from the traditional call for more tax revenues that have in the past actually fostered spending increases rather than reductions. The taxpayers' 10-percent checkoff would not represent any new tax liability or burden. It is simply a matter of voluntarily choosing anywhere between 1 and 10 percent of your existing tax liability to help reduce the deficit and debt.

For example, a taxpayer with a $5,000 income tax liability could designate up to 10 percent (or $500) of his taxes to go directly to deficit reduction. The key is that it is a voluntary proposal that lets taxpayers decide themselves the importance of deficit reduction. It is an empowerment issue on the part of the taxpayer. Nothing is mandated until taxpayers designate it by exercising their checkoff option.

Spending Control With Teeth

Taxpayers have repeatedly endured tax increases paired with the promise of future spending cuts that never materialize. That's because there is nothing to stop the new revenues from simply being spent on new and existing federal programs. However, the 10 percent checkoff proposal also provides the means to achieve real spending reduction. By checking off an amount to go toward debt reduction, each individual taxpayer would simultaneously authorize a corresponding dollar-for-dollar reduction in federal spending, except for spending on Social Security, mandatory interest payments on the debt, and federal deposit insurance.

On May 1 of each year, (i.e. after the April 15 tax return deadline), the Treasury Department would be required to provide Congress with an estimate of the total amount of money taxpayers have designated to go towards debt reduction. Congress would then have from May until the end of the session to find the spending reductions in the budget for the next fiscal year that begins on October 1. This provision would enforce taxpayers' wishes that Congress uses the money to both reduce government indebtedness as well as federal spending growth.

If Congress fails to make the designated amount of spending cuts, an automatic across-the-board cut (sequester) would kick in. Social Security, net interest, and deposit insurance spending would be exempt. Tax increases would not be allowed to substitute for the required sequestration. Taxpayers could at last directly force fiscal discipline on Washington. In the current budget situation, tax revenues intended to go toward deficit reduction can simply be spent. But, under the provisions in H. Res. 429, the revenue taxpayers designate to reduce the debt cannot lead to increased spending. It would be placed into a debt retirement trust fund and, most importantly, would mandate an equivalent amount of real spending reduction.

This process would repeat each year, further reducing the deficit as well as the spending baseline. The legislation is intended to make spending reductions permanent. A

program would be prevented from returning to its previous spending level after a sequestration.

The exact amount of debt reduction that taxpayers would check off cannot be easily estimated since there is insufficient information on how many taxpayers would participate, at what level between zero and ten percent would they choose, and for how long they would participate. However, the Congressional Budget Office has calculated the full deficit reduction potential of the plan illustrating a budget surplus in five years. For example, income tax revenues for 1994 are estimated to be $531 billion. Therefore, the maximum amount that can be dedicated to deficit reduction and matching spending cuts would be $53.1 billion (10% of $531). Additionally, this single year's spending reduction would generate savings in all future years, as programs are barred from returning to previous spending plans. Therefore, even a relatively modest level of participation in the checkoff plan can generate significant future savings as the baseline spending level is reduced.

Plenty Of Room For Savings

Clearly, there is plenty of room for additional spending cuts in a $1.5 trillion-plus per year budget. Despite all the claimed scrimping and saving in President Clinton's recently passed five-year budget plan, Uncle Sam will spend more, not less, each year over this same period. In the current fiscal year the federal government will spend an estimated $1.5 trillion; by 1998, federal spending will have risen to $1.75 trillion. In fact, the claimed spending cuts touted in Clinton's economic plan -- about $237 billion over five years, excluding user fees -- represent only 2.9 percent of the more than $8 trillion in planned spending during that time. The budget plan also expanded the debt limit from $4.37 trillion to $4.9 trillion, but even this won't be enough to accommodate 1994-1998 deficits, which will add another $1.12 trillion to the national debt.

President Clinton has called for an additional $1.9 billion reduction in spending authority from his 1994 budget. A bi-partisan proposal spearheaded by Reps. Tim Penny (D-MN) and John Kasich (R-OH) outlines $103 billion in potential budget savings over five years. Vice President Al Gore offers another $9 billion in savings under his "Reinvent Government" plan. CSE has proposed several spending cut plans that would each reduce federal outlays by more than $70 billion over five years. While many policymakers are pressured to increase spending by the multitude of well-organized, well-funded, special-interest groups, the spending cuts demanded by taxpayers themselves under the 10-percent checkoff plan may provide the "political cover" needed to make a real dent in deficit spending.

Without additional controls on the federal budget process, there is little reason for taxpayers to believe that the chronic deficit spending situation will improve significantly. In addition to the 10-percent checkoff plan, CSE's members also support a Constitutional balanced budget amendment, (particularly with tax limitation) and granting line-item veto authority to the President as viable means to control deficit spending.

Taxpayers who just experienced two major federal tax hikes in 1990 and 1993 should at least be granted the ability to help make sure that the deficit reduction promised them is achieved. As witnessed in the recent elections in New Jersey, Virginia, and New York City, taxpayers are tired of business as usual. For Americans to be able to continue increasing their standard of living, government taxing and spending cannot continue to consume an increasingly large portion of our economic efforts. The growth rate in the federal debt should not be allowed to outpace our economic growth rate. H. Res. 429 provides a simple and reasonable solution that would allow taxpayers the ability to help get our nation's fiscal house in order.

Chairman RANGEL. Thank you.
Mr. Schatz.

STATEMENT OF THOMAS A. SCHATZ, PRESIDENT, COUNCIL FOR CITIZENS AGAINST GOVERNMENT WASTE

Mr. SCHATZ. Thank you, Mr. Chairman and Mr. Hancock, for the opportunity to appear before the subcommittee today.

I represent the 600,000 members of the Council for Citizens Against Government Waste. The purpose of today's hearing is to discuss H.R. 429, which is endorsed by CCAGW, to establish a trust fund in the Department of the Treasury into which up to 10 percent of an individual's income tax liability could be deposited to help pay off the national debt.

Mr. Chairman, earlier today, Peter Grace, who chaired the President's Private Survey on Cost Control, better known as the Grace Commission, met with several members of the Grace Caucus, including Mr. Hancock. Those who attended this meeting immediately understood why we need to take whatever steps we can to drastically reduce and eventually eliminate the national debt.

For those who were not present, here is what Peter Grace pointed out. First, the total debt for Federal, State and municipal governments is $15.3 trillion. This is a number that boggles the mind. In fact, it is almost incomprehensible. It is also a number that will continue to grow over the next five years.

At the Federal level, the national debt of $4.4 trillion, which is where it is today, will be more than $6 trillion at the end of fiscal year 1998. Gross interest on the national debt of $320 billion in fiscal 1994 will continue to rise, reaching, according to CBO calculations, $407 billion in 1998.

Peter Grace pointed out if these projections are wrong, deficits and interest rates are greater, we may be looking at interest payments twice that amount, maybe $800 billion.

Mr. Walker testified earlier that on our current path, the debt will exceed $13 trillion in 2009. At 6 percent interest or so, that is a payment of $780 billion.

Could it happen 10 years earlier? Why not? Did anyone think interest rates would be at historic lows of 3 percent today or 18 percent in the late 1970s?

Just as a point of information, 18 percent of $6 trillion is $1.1 trillion.

Mr. Chairman, under any scenario, in the next 15 or so years, this country is facing bankruptcy without addressing our massive debt and interest payments.

Peter Grace also told the Grace Caucus what happens when you can't repay your debt. If you had four Argentine pesos in 1986 and you put one in your pocket, do you know how many you would get today for that single piece of currency? Two point three trillion pesos. In Brazil, you get 800 to 900 billion pieces of currency for a single 1946 coin.

People say, this is the United States, we can't become a banana republic. Argentina now lies in financial ruins.

There is a lot of talk in Washington about morals. Is it moral to leave this massive debt to our children and grandchildren? Can they ever repay it?

The framers of the Constitution assumed that each generation of Americans would pay its own bills, and that the Federal budget would over time remain roughly in balance. Thomas Jefferson said, "We should consider ourselves unauthorized to saddle posterity with our debts and morally bound to pay them ourselves." He also pointed out that public debt was the greatest danger to be feared.

Mr. Chairman, H.R. 429 would for the first time place into the hands of those people who will bear the burden of the national debt the power to pay it back. Since it is clear the Congress has abdicated this responsibility by failing to balance the budget since 1969, by failing to even attempt to provide a balanced budget in the foreseeable future, and by continuously increasing the level of Federal spending and debt over the remainder of the century, it is time to give the American people the opportunity to make the decisions that cannot be made inside the Beltway.

One of the questions raised during this hearing is how reduced participation in the Presidential tax checkoff program would affect interest in the debt buydown checkoff proposal. Very simply, taxpayers would be far more likely to check a box that saves them money rather than one that costs them money.

I would also like to briefly address the constitutional question raised by the previous panel. The Congress would enact this legislation as a solution to the national debt problem. It is hard for me to see the constitutional problem. It really can't be unconstitutional if Congress does it first.

It is time to clean up Washington. It is time to stand up to the special interests that will kick and scream and say their programs can't be cut. It is time to recognize that the only real way to help our children and grandchildren is to enact a plan to eliminate the massive debt that now looms ruinous for their futures. H.R. 429 will let the real owners of this country, the taxpayers, do just that.

Thank you, Mr. Chairman, and I will be happy to answer any questions.

[The prepared statement follows:]

TESTIMONY OF THOMAS A. SCHATZ
PRESIDENT
COUNCIL FOR CITIZENS AGAINST GOVERNMENT WASTE
Before the House Ways and Means Subcommittee on Select Revenue Measures
November 16, 1993

Mr. Chairman, my name is Tom Schatz and I represent the 550,000 members of the Council for Citizens Against Government Waste (CCAGW). I appreciate the opportunity to provide our views on H.R. 429, the Taxpayer Debt Buy-Down Act. I come to this subcommittee hearing with one simple message: It is time to remind everyone in Washington that the money we are wasting belongs to the taxpayer.

As you know, H.R. 429 is one of the many pieces of legislation which will change the way things work on Capitol Hill. It wasn't too long ago when such legislation was necessary. Today however, we find our country with a debt so massive that our children will surely suffer as a result of Congressional profligacy. Yet Congress continues confiscating higher and higher portions of workers' hard-earned dollars and continues spending them plus billions more at an obscene rate. The utter failure of the federal budget process to serve the taxpayer's interests and Congress' failure to exhibit any sense of fiscal prudence, restraint, and leadership, has set the stage for real change. Taxpayer agitation and anger is extremely high, but it has not peaked. More and more voters are becoming independents, blaming both parties for Washington's inability to get spending under control.

Twenty-four consecutive unbalanced budgets, world-record-breaking deficits in both 1991 and 1992, and a national debt of $4.4 trillion, reaching $6.2 trillion at the end of 1998, have raised many uncomfortable questions. Is federal spending permanently out of control? Can our elected representatives or even the President still make a difference? Do our Representatives have the capacity to lead? What kind of living standards will our children and grandchildren inherit? This business-as-usual mentality is rapidly eroding the confidence citizens have in their government.

We've heard (or will hear) from other panelists about failed budget summits, agreements, and compromises. Congressional, Executive Branch, and special interest leaders have convened six budget summits during the past decade. These budget summits have been *secretive deliberations which intentionally exclude the taxpayer, the media, and most members of Congress from the debates and discussions that shape the budget and America's future.* Webster's Dictionary should add this definition for their next edition. All six budget summits failed. Not one summit achieved its stated deficit-reduction objectives. They have been mirages.

The last so-called deficit reduction package that passed did not result from a summit. Many representatives patted themselves on the back for supporting this courageous deficit reduction plan in early August of this year. The fact is that the 105th and 106th Congresses will have to vote to implement over 80% of these cuts -- so much for courage. It is incomprehensible to most taxpayers how out-of-control Washington has become. They do understand our political leaders have brought us this staggering debt load and they expect Congress to clean up their mess.

H.R. 429 is a step in the right direction. It is a simple, straight-forward bill that dispenses with the smoke and mirrors commonly found in most deficit-reduction plans. The bill requires the Internal Revenue Service to revise individual income tax forms to include a check-off box so that taxpayers voluntarily designate a portion of their tax liability to cut the federal deficit. The truly significant part of Congressman Walker's bill is that this money will go directly to deficit reduction. Congress will not be able to borrow or spend this money. The raiding and squandering of trust fund accounts will be stopped and meaningful deficit reduction will begin.

The bill sets up a "Public Debt Reduction Trust Fund" at the Treasury Department, that guarantees that the amount designated, or checked off by fiscally-responsible-taxpayers, will be deposited directly to the trust fund. In addition, H.R. 429 will accomplish deficit reduction in the amount designated by taxpayers by requiring across-the-board cuts in all federal discretionary and many direct spending programs.

It is time to give legislation like H.R. 429 a chance to succeed. Let fiscally-responsible-taxpayers have their say. Let's empower the people. By the time this panel is heard over 30 minutes, the government will be spending $85.4 million, while only taking in $71 million, leaving a deficit of $14.4 million. During this time, our once-respected Capitol City will waste $9.5 million, according to CCAGW's calculations.

The Framers of the U.S. Constitution assumed that each generation of Americans would pay its own bills and that the federal budget would, over time, remain roughly in balance. Thomas Jefferson said, "we should consider ourselves unauthorized to saddle posterity with our debts, and morally bound to pay them ourselves."

In today's era of special interest politics, and expensive and sophisticated election campaigns, the checks and balances established over 200 years ago are not up to the job of controlling the federal deficit. H.R. 429 is a step back to the policies the Framers wanted to convey to future generations. But whenever Congress considers spending cuts that could help balance the budget, only a few Americans are aware of it. It is easy to assume that most Americans will never hear about H.R. 429 or even the Subcommittee on Select Revenue Measures. By contrast, those who stand to lose from budget constraint -- typically the beneficiaries and administrators of spending programs -- are well aware of what's at stake for them, and they'll be lining up pleading their cause with high-priced lobbyists, while representatives of the taxpayers struggle just to keep on top of the issues.

You have heard a lot of talk in Washington about fairness. Is it fair to ask any individual in this country to pay another dime in taxes until he or she is included in the debate about deficit reduction and elimination of government waste? That is why so many American voters and *newly* elected politicians are angry. And that is why time is on the side of legislative proposals such as H.R. 429, the Balanced Budget Amendment, the Penny-Kasich Spending Reduction proposal, and the Clinton Administration's own "Government Reform and Savings Act of 1993." These are *real changes*. It is time to clean up Washington. H.R. 429 will let the owners of Washington, the fiscally-responsible-taxpayers, do just that.

Mr. Chairman that concludes my testimony. I would be happy to answer any questions you may have.

Mr. HANCOCK [presiding]. Thank you.
Mr. Ture.

STATEMENT OF NORMAN B. TURE, PH.D., PRESIDENT, INSTITUTE FOR RESEARCH ON THE ECONOMICS OF TAXATION

Mr. TURE. Thank you.

I want to commend this subcommittee for allowing this opportunity to address H.R. 429. The bill will very likely result in a material slowdown in the growth of Federal spending and reduction of Federal budget deficits. Just as important, by tying budget policymaking more closely to the express preferences of individual taxpayers, H.R. 429 would substantially improve the Federal budget process and increase the efficiency of the fiscal system.

Most Members of the Congress and their constituents alike deplore Federal budget deficits and the resulting requirement for the Federal Government to borrow some of the saving of households and businesses. Notwithstanding, Federal budget deficits are the rule rather than the exception.

In large part this anomaly results from the fact that individual income taxpayers as a group have no way to inform policymakers about how much government they want and are willing to pay for. On the other hand, policymakers are quite accessible and responsive to the demands of organized groups of individuals for specific government programs and services of benefit to them.

The result is continuing pressure to add more government programs, and the outcome is, as you would expect, increases in government activities and outlays in excess of the taxes we are prepared to pay to finance them.

The budget policymaking for any given fiscal year is also very much the prisoner of spending decisions in the past and of the aversion to cutting back on future spending for programs with established beneficiary constituencies. I have been intrigued to hear this statement verified over and over again during the course of the hearing so far this afternoon.

Baseline projections of existing budget program outlays, not the worthiness of those programs, have for the most part dominated budget decisionmaking, not only impelling excessive expansion of Federal spending but also impeding adjustment of spending priorities for the changes and demands for government services that necessarily occur in a dynamic society.

Something has to be done to overcome these impairments of the fiscal system. H.R. 429 would meet the requirements for a more efficient fiscal system.

Let me talk about fiscal efficiency and the lack thereof. In a free society, government budget deficits reflect a fundamental failure of the fiscal system. An efficient fiscal system would provide a volume and a composition of government spending programs and activities that conform closely with the public's preferences for the services they want from its government, and the cost it is willing to bear to obtain those services. To achieve that result, government activity must be financed by taxes that are as broadly based and as visible to taxpayers as possible.

Government borrowing conceals the cost of the outlays it finances from the public. Achieving an efficient fiscal system, one that con-

fines government spending to the amount the public is willing to pay for in taxes, requires effective communication between taxpayers and public policymakers.

The existing fiscal system suffers from communication breakdown. It operates, therefore, contrary to the preferences of the policymakers and the body politic as a whole alike, for getting from rapidly expanding budget outlays and deficits to slower growth in the amount of government spending and much smaller deficits.

Past efforts to reduce budget deficits have not succeeded. The closest approach to achieving this result was the Gramm-Rudman-Hollings Act. The important lesson to be learned from this experience is that achieving an efficient fiscal system can't be achieved by draconian measures that call for huge spending cuts or very large tax increases in a single or few fiscal years.

What is needed is a system that, one, allows policymakers to hear the demands of the constituency as a whole for less government spending and smaller deficits, and two, effectively satisfies those demands.

H.R. 429 enables every individual income taxpayer, of which there are millions, to communicate explicit instructions to the Executive Branch and to the Congress to reduce aggregate budget outlays by as much as 10 percent of individual income tax liabilities.

The bill provides the equivalent of an annual taxpayer referendum concerning the extent to which the Federal spending should be reduced below the baseline levels for each fiscal year. The referendum would mandate the Congress to enact these reductions.

The bill would not impose on taxpayers the impossible task of specifying which government programs are going to be cut back by how much from the spending levels they would otherwise reach.

Instead, the Congress would have to order the priorities of existing and new spending programs, subject to the overall outlay constraints specified by individual income taxpayers. Only if the Congress failed to bring aggregate spending authorizations within the limits set by the buydown would across-the-board sequestration take place.

One of the great virtues of H.R. 429 is that it would greatly reduce the influence of baseline spending projections on budget policymakers. The projections would serve as a base from which the taxpayer-mandated reductions are to be made rather than, as in the existing case, that to which outlays are to be added.

Another signal virtue of H.R. 429 is its incremental approach to deficit reduction. I think the numbers that CBO presented to us are outside estimates. I seriously doubt that in fact they would be obtained. Indeed, reduction in both spending and the deficit would be substantially more gradual.

H.R. 429 combines certainty of spending and deficit reduction with gradualism, avoiding a wrenching fiscal strain that would be entailed by legislation or constitutional amendment requiring balanced budgets immediately or within a very few fiscal years.

The enactment of H.R. 429 would very effectively open the lines of communication between taxpayers and policymakers, informing budget makers by how much people want spending to be reduced from the projected baseline amount. Whether taxpayers chose to

take little or maximum advantage of this opportunity, the aggregate results would far more accurately than any other poll convey to policymakers the public's views about the level and growth of total Federal spending.

The Congressional Budget Office has provided estimates, summarized in the attached table of the budget effects that H.R. 429 would provide, assuming that all individual income taxpayers would assign the maximum amount, 10 percent, of their tax liabilities to the debt buydown trust fund.

In all probability the actual outcomes would be somewhat smaller cuts, I think substantially smaller cuts in spending, and in budget deficits than CBO's outside estimates show. But the specific magnitudes of these results in one sense would be less consequential than what the results reflect: An accurate portrayal of what taxpayers generally wish in terms of aggregate levels of government services.

As such, these results would effect a major achievement in enhancing fiscal efficiency. Allow me to commend H.R. 429 to the subcommittee on this basis as well as on the basis for its potential for improving budget outcomes.

Let me add one statement not in my prepared statement. During the course of the discussion this afternoon, what I think I have heard, Mr. Chairman, is really the great tension that this proposal generates. On the one hand, I think there is a broadly based consensus that we ought to reduce the presence of the Federal Government in our daily lives. That means a smaller government. And we certainly ought to reduce Federal budget deficits.

But on the other hand, when we look at something that will be effective in accomplishing that result, the immediate response is, Oh, we can't do that. Now, that is a problem that I think the Congress confronts literally day in, day out. On the one hand you want it, on the other hand, you don't know how to do it and you don't want to face the wrath of those who will be adversely affected if you do.

This is the way, Mr. Chairman, in which you get the cover you were looking for. I think it would very effectively provide it for you.

Thank you.

[The prepared statement and attachment follow:]

H.R. 429: ENHANCING FISCAL EFFICIENCY

Statement by
Norman B. Ture, President
Institute for Research on the Economics of Taxation
to
Subcommittee on Select Revenue Measures
Committee on Ways and Means
U.S. House of Representatives

November 16, 1993

I am Norman B. Ture, president of the Institute for Research on the Economics of Taxation (IRET). My testimony presents my views, not necessarily those of IRET, about H.R. 429, the Taxpayer Debt Buy-Down Act.

I want to commend the Chairman and the Subcommittee for providing this opportunity to address H.R. 429. The bill, I believe, represents an impressive and constructive effort to improve the existing federal budget process. Its enactment and implementation would very likely result in a material slowdown in the growth of federal spending and in more constructive federal programs. Just as important, it would create an effective nexus between policy makers in the Congress and in the Executive Branch, on the one hand, and the entire population of individual federal income taxpayers, on the other. In both respects, enactment of H.R. 429 would substantially improve the federal budget process and lead to a level and composition of federal activities conforming more closely with the preferences of the public as a whole.

It is the lack of close connection between taxpayers and policymakers that, I believe, is a major reason why avoiding federal budget deficits, or at the least reducing them, has proved to be so elusive a fiscal policy objective. By tying budget policy making more closely to the expressed preferences of individual taxpayers, H.R. 429 would increase the efficiency of the fiscal system. It is on this point, generally overlooked but critically important, in my judgment, that I wish to concentrate my testimony.

Every member of the Congress must be aware of the anomaly posed by year-in, year-out federal budget deficits in the face of a virtually universal preference throughout the body politic for balanced budgets. Congressmen and Senators and their constituents alike deplore federal spending in excess of federal revenues and the resulting requirement for the federal government to borrow some of the saving of households and businesses. Notwithstanding this unanimity, federal budget deficits are the rule, rather than the exception. In large part, this anomaly results from the fact that policy makers are to all intents and purposes buffered from the preferences of the body politic as a whole with respect to how much government they are willing to pay for. As a group, individual income taxpayers have no way to communicate their wishes in this regard to the executive branch and the Congress. On the other hand, policymakers are quite accessible and responsive to the urging and demands of organized groups of individuals for specific government programs and services of benefit to the groups. The result is continuing pressure to add to the inventory of government programs and no effective means for curbing spending growth. Not surprisingly, the outcome is what we have witnessed for far too long, i.e., increases in government activities and outlays in excess of the taxes we are prepared to pay to finance them.

To be sure, budget policy making for any given fiscal year is very much the prisoner of policy decisions in the past and of the aversion to cutting back on future spending for programs with established beneficiary constituencies. Baseline projections of existing budget program outlays, not the worthiness of those programs, have for the most part dominated budget decisions making. As such, the tyrannical grip of the past both impels excessive expansion of federal spending and impedes adjusting spending priorities to the changes in demands for government services that necessarily occur in a dynamic and progressive society. This grip of baseline projections on budget making must be broken if the fiscal system is to be responsive to those changes in priorities and accurate to reflect the public's preferences and willingness to pay for government.

Something must be done to overcome these impairments of the fiscal system that exert pressures for untoward growth in outlays in excess of tax revenues. H.R. 429, I believe, would go far to meet this requirement for a more efficient fiscal system.

Fiscal Efficiency

In a free society, government budget deficits, whatever their other faults and adverse consequences, should be seen as reflecting a fundamental failure of the fiscal system. An efficient fiscal system would provide a volume and composition of government spending programs and activities that conform closely with the public's preferences for the services it wants from its government and the cost it is willing to bear to obtain those services. To achieve that result, government activity must be financed by taxes that are as broadly based and as visible to taxpayers as possible. The core function of taxes, after all, is to price out government activity — to inform the body politic about the cost they must incur, by way of forgone alternative products and services, for what they want government to do. Insofar as the financing of government activity doesn't rely on highly visible taxes paid by the largest possible number of people, this function can't be performed. The result almost certainly will be more, less valuable government activity than the public would be willing to pay for. Government borrowing to finance the excess of outlays over tax revenues conceals the cost of those extra outlays from the public. Government borrowing, in short, muffles the public's voice regarding the worthiness of the debt-financed government activity.

Achieving a more efficient fiscal system, one that confines government spending to the amount the public is willing to pay for in taxes, obviously requires effective communication between taxpayers and public policymakers. This communication clearly has been largely lacking. The American public disapproves of budget deficits, believes government is too large and too intrusive, and isn't willing to pay additional taxes to reduce, let alone eliminate, the huge deficits in prospect for the indefinite future. There are few, if any, policymakers or people seeking policy making positions who proclaim a preference for more government and government borrowing to finance the increased spending. Surely, one must wonder why the preferences of both taxpayers and policymakers in this respect are not reflected — indeed, are flagrantly denied — in actual budget results. The election process itself obviously doesn't effectively convey the electorate's mandate, which lacks specific instruction, to the people who are elected. This isn't because, once elected, policymakers disregard their constituents' views or really have no desire to curb deficit spending and excessive government spending. It is, instead, that their constituents' preferences are not effectively communicated and that there is no effective means for implementing those preferences.

The existing fiscal system, therefore, operates contrary to the preferences of policymakers and the body politic as a whole for getting from rapidly expanding budget outlays and deficits to slower growth, if not actual reduction, in the amount of government spending and much smaller deficits. It favors specific groups, some small, some large, at the expense of the public as a whole.

Past efforts to curb spending growth and to reduce budget deficits clearly have not succeeded. The closest approach to achieving these results was the Gramm-Rudman-Hollings provision, but G-R-H foundered when its implementation called for drastic outlay sequester. The important lesson to be learned from this experience is that achieving an efficient fiscal system can't be achieved by draconian measures that call for huge spending cuts or very large tax increases in a single or few fiscal years. This is the reason why balanced budget amendments, however desirable their objective, are not realistic approaches to solving the deficit problem. What is needed, instead, is a system that (1) allows policymakers to heed the demands of the constituency as a whole for less government spending and smaller deficits, and (2) would be effective in satisfying these demands.

H.R. 429: Increasing Fiscal Efficiency

For this purpose, there is needed (1) better communication between taxpayers — those who write the checks to pay for government — and policymakers and (2) an effective device for implementing taxpayers' preferences. H.R. 429, The Taxpayer Debt Buy-Down Act, satisfies both of these requirements.

H.R. 429 puts in the hands of every individual income taxpayer the means for communicating explicit instructions to the executive branch and to the Congress to reduce aggregate budget outlays by as much as 10 percent of individual income tax liabilities. In essence, the bill provides for setting up an annual taxpayer referendum concerning the extent to which federal government spending should be reduced below the baseline levels for each fiscal year. More than a mere expression of preference, moreover, the referendum would mandate the Congress to enact reductions in aggregate spending equal to the aggregate amount of debt buy-down that taxpayers specified.

The bill would not impose on taxpayers the impossible task of specifying which government programs are to be cut back by how much from the spending levels they would otherwise reach. Instead, the Congress would confront the requirement for ordering the priorities of existing and new spending programs subject to the overall outlay constraint specified by individual income taxpayers. Congress would have the opportunity to enact differential cuts in spending, provided that the total of such cuts from the year's baseline at least equalled the taxpayer-specified buy-down amount. Only if the Congress failed to bring aggregate spending authorizations within the limits set by the buy-down would an across-the-board sequestration take effect.

One of the great virtues of H.R. 429 is its incremental approach to deficit reduction. It combines certainty of spending and deficit reduction with gradualism, avoiding the wrenching fiscal strains that would be entailed by legislation or constitutional amendment requiring balanced budgets immediately or in the span of a very few fiscal years. Moreover, it would provide individual taxpayers the opportunity to slow or to accelerate the spending and deficit reduction process.

Expected Results of Implementing H.R. 429

H.R. 429 has two closely related objectives — to give individual income taxpayers an opportunity to communicate their preferences regarding the amount and growth of federal spending and to reduce federal budget deficits. What are the prospects for its success in achieving these objectives?

There is little reason to doubt that the enactment of H.R. 429 would very effectively open the lines of communication between taxpayers and policymakers. No complicated instructions or calculations would be required for informing taxpayers how to indicate on their tax returns

how much of the tax liabilities they are reporting for the preceding year they wish to be allocated to the debt buy-down trust fund, hence to inform budget makers by how much spending for the coming fiscal year is to be reduced from the projected baseline amount. Whether taxpayers chose to take little or maximum advantage of this opportunity, the aggregate results would far more accurately than any other poll convey to policymakers the public's views about the level and growth of total federal spending.

There is little information on which to base confident estimates of the magnitude of the spending and deficit reductions that would result under H.R. 429. The Congressional Budget Office has provided estimates of the budget effects assuming that all individual income taxpayers would assign the maximum amount — 10 percent — of their tax liabilities to the debt buy-down trust fund, hence require equal spending reductions from the fiscal year base line amount. On these assumptions, as the attached table shows, budget outlays would peak in the year 2000 and begin to decline slowly in the year 2002. The budget deficit, on the other hand, would begin to decline substantially from projected baseline levels beginning in fiscal year 1995; surpluses would replace deficits beginning in the year 2000 and would increase substantially thereafter. The debt held by the public would peak in the fiscal year 1999 and fall rapidly thereafter. Of course, these results would be altered if the baseline projections were revised, particularly if there were changes in tax revenues because of changes in the tax laws or changes in underlying economic conditions. Nonetheless, the CBO projections are useful as indicators of the potential of H.R. 429 for imposing an effective discipline on policymakers' decisions about aggregate federal spending.

The CBO estimates are outside estimates. In all probability, the actual outcomes would be somewhat smaller cuts in spending and in budget deficits. But the specific magnitudes of these results, in one sense, would be less consequential than what the results would reflect — an accurate portrayal of what taxpayers generally wish in terms of aggregate levels of government services. As such, these results would also depict a major achievement in enhancing fiscal efficiency. Allow me to commend H.R. 429 to the Subcommittee on this basis as well as its potential for improving budget outcomes.

CONGRESSMAN WALKER'S PROPOSAL PERMITTING INCOME TAX CHECKOFFS TO DICTATE AUTOMATIC SPENDING CUTS

TABLE 2: ILLUSTRATIVE MAXIMUM EFFECTS OF PROPOSAL (By fiscal year, in billions of dollars)

27-May-93	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Illustrative Maximum Effect on Deficit and Debt											
Assumed checkoff amount a/	50	53	57	60	63	66	69	72	76	79	82
Automatic spending cuts b/											
Non-exempt programs c/	--	--	-50	-105	-168	-238	-313	-397	-488	-589	-700
Interest costs	--	--	-2	-6	-15	-29	-47	-71	-102	-140	-188
Total	--	--	-52	-112	-184	-266	-360	-468	-590	-729	-887
Resulting outlays	1,443	1,501	1,523	1,534	1,551	1,574	1,584	1,587	1,587	1,582	1,570
Deficit (-) or surplus (+)	-302	-287	-233	-178	-138	-93	-45	11	76	149	233
Debt held by the public	3,282	3,572	3,809	3,993	4,138	4,237	4,288	4,282	4,212	4,069	3,843
Illustrative Maximum Effect on Sequesterable Programs											
Baseline outlays for non-exempt programs d/	1,016	1,036	1,071	1,117	1,185	1,250	1,317	1,389	1,468	1,553	1,646
Cumulative sequestration	--	--	-50	-105	-168	-238	-313	-397	-488	-589	-700
Resulting outlays for non-exempt programs	1,016	1,036	1,021	1,012	1,016	1,012	1,003	992	980	965	946
Percentage reduction	--	--	-5%	-9%	-14%	-19%	-24%	-29%	-33%	-38%	-43%

SOURCE: Congressional Budget Office.

a. At the request of Congressman Walker, CBO assumed that individual income tax payers would choose the maximum checkoff, 10 percent of liabilities. Although tax collections (on a fiscal year basis, as shown above) are not the same as liabilities (which are on a calendar year basis), they are similar enough for this illustration. CBO has no basis to judge how many taxpayers would choose the checkoff, and for how many years.

b. Taxpayers would designate the checkoff in returns filed on or before April 15, and sequestration would begin the following October (or at the end of the Congressional session, if later). Hence, there is a two-year lag between taxpayers' incurrence of liabilities and the spending cuts that they could order.

c. Congressman Walker intends that a single year's checkoff should generate savings in all future years, as programs are barred from returning to previous spending plans or benefit formulas. Additional legislative language would be needed to achieve this result.

d. In Congressman Walker's proposal, only Social Security, deposit insurance, and net interest are exempt. Offsetting receipts are effectively exempt because they are not associated with sequesterable budgetary resources. The Congress can substitute other spending reductions (but not revenue increases) for the required sequestration.

Chairman RANGEL [presiding]. Well, Doctor, I don't think we deserve a cover. I think every two years we are supposed to be exposed. And if the people don't like what we are doing, then they kick us out. And if we don't have—everyone wants, everyone wants the deficit reduced. Nobody wants taxes. Everyone wants Federal cuts. We know that. And so the only time you have a problem is when you decide what is going to be cut. And just because somebody, a handful of high income taxpayers decide they are going to make it mandatory, it doesn't make our job any easier. Those cuts are still going to have to be made, and we still are going to have to face the music, and we should.

But the whole idea that a handful of people who opt to participate, and the more bucks you pay, the more votes you have, and if you don't pay, you don't play, and that they mandate what the national policy is, to me is really absurd. I would think that I would rather clutter up the Constitution with a mandatory balanced budget than to find cover, which I think is cowardly, by giving the gun that triggers the cuts to a small group of people that is going to direct what the entire United States Congress has to do.

I know we are bad, but I just refuse to believe that we are that bad.

Mr. TURE. I don't think you are bad, Mr. Chairman.

Chairman RANGEL. I will tell you this. Someone once said that it is getting so bad you can't trust the voters anymore. But I will tell you this, you explain this to the people in detail that support it, that are willing to make the mandate, because I bet you if I sent out a questionnaire to all of my voters, they would—whether they pay or not, they would check off, No more taxes, reduce spending, reduce the deficit. But I will tell you, I could pick a half a dozen projects that I would suggest to them will be cut, and then they would say, "Well, we are talking about the guy behind the tree you should look at, not me." Because whatever they get from the Federal Government, you know, they are entitled to it. They worked hard for it. They have earned it. And it is not really for them anyway. It is for the wealth of the nation that you are giving them the incentive, if you will.

But for the rest of them, it is just loopholes, it is pork, and you give me the taxpayer that signs this, and let me name the program for each and every voter, and we can work this whole thing out. But I assume none of you find any downside to this at all, right? This just makes it a better Congress, a stronger nation, and mandates, we get on with the job of reducing the deficit, right?

Mr. TURE. May I elaborate on a statement to you? For one thing, of course, this is not a program which only a small minority of the population would participate in. There is something like 120 million individual income tax returns. Most of them show taxable income and therefore tax liability.

Chairman RANGEL. What makes you think they will participate in this? How many of our taxpayers participate in checkoffs now, in anything?

Mr. TURE. I think that is a materially different thing, as Mr. Reischauer observed. I don't think you can analogize people's response to the kinds of checkoffs that are available on the tax return now and this one, which really goes to the heart of the issue.

Chairman RANGEL. How long do you think they would allow that check to stand before we get finished talking about which programs are going to be cut?

Mr. TURE. But you have that problem right now.

Chairman RANGEL. I know that.

Mr. TURE. The only difference, Mr. Chairman is that right know the kind of people who in fact can get your attention, who can talk to you about what they want, is not the mass of the voting and taxpaying population, it is a tiny handful of them.

Chairman RANGEL. You are making the assumption that Members have no contact at all with their constituents.

Mr. TURE. I don't make that assumption at all.

Chairman RANGEL. You said a handful of people reach the Members of Congress. I would like to believe close to 600,000 reach him or her. I guess it depends on the Member.

Mr. TURE. It is uncontestably true that when a great mass of individual income taxpayers have no effective way of communicating with any Member of Congress, let alone the Congress as a whole, their preferences with respect to what the budget should look like, what it ought to consist of, how big it is, how large the deficit is and what should be done to do something about it——

Chairman RANGEL. So you consider these general elections just sham?

Mr. TURE. Notice everybody goes into a general election saying, I am going to try to do something to reduce the deficit. Everybody says that. What is the basis for taxpayers generally selecting them?

Chairman RANGEL. Because we have to vote on these issues. We vote on these things. And once you make a vow you are going to do it and then you don't do it, I think you ought to leave office. That is as straight a shot than——

Mr. TURE. I won't argue that point with you.

Chairman RANGEL. Good. That is my only point.

Mr. TURE. You had a very substantial turnover in membership this past election. Look at the result.

Chairman RANGEL. I think it is terrific. That is what the system is all about.

Mr. TURE. Let's five years from now check back on the results of what happened this year, OBRA 1993, and see whether or not we really got any substantial and effective deficit reduction——

Chairman RANGEL. That is up to the voters.

Mr. TURE. Or a slowdown in the growth of spending. I don't think it is in the mechanics. I think H.R. 429 would give you enormous assistance. It would allow you to say to the people who come in to you as they do to every Member of Congress, saying, I have a program, I need your help for it. You would say, I would love to help you, I can't. I am subject to a mandate that says I may not.

Chairman RANGEL. Is that a secret checkoff?

Mr. TURE. It is as secret as your tax return is.

Chairman RANGEL. How can I tell if they are lying to me, whether they checked off or not?

Mr. TURE. It doesn't make any difference if they checked off or not. If they come to you and say, I want your help in getting such and such a program added to the total program of this or that department——

Chairman RANGEL. I am talking about this checkoff, which directs the Congress what to do, doesn't it? How would I know whether they sign the checkoff or not?

Mr. TURE. The Treasury Department will have given you the information.

Chairman RANGEL. For the individual taxpayer?

Mr. TURE. Not for one by one——

Chairman RANGEL. If you were the taxpayer, you went to my district and were telling me, I mandate it that we do these things, I would say, Let me see your tax return.

Mr. TURE. It is the sum of all individual taxpayers' checkoff, that is your mandate.

Chairman RANGEL. That even encourages me more to kind of stick with my taxpayers in my district. You have convinced me now. I had a doubt. I was open-minded about this.

Mr. TURE. You could if you wish go to the Treasury Department and say, Would you please tell me in my district what the magnitude of the checkoff was.

Chairman RANGEL. OK. I am now a little more open.

Mr. TURE. There will be no problem with that.

Chairman RANGEL. As long as I can have some touch with my district.

Mr. Hancock.

Mr. HANCOCK. Thank you, very much.

You know, I have an awful lot of respect for the chairman. The Chairman knows what he stands for and he is going to stand for it. Naturally we disagree in certain areas, especially that we disagree in the area right here.

I don't want to get into the question of how people get elected, but I can assure you this. There are an awful lot of Members who every once in a while ought to read their campaign literature and what they ran on, and then vote on those issues.

It is very difficult for citizens. As you know, we play games all the time, hiding how we vote. We don't want to really admit it because we have got to play these games up here. And in fact, I think I am one of the few people in the United States Congress that sends out complete voting records to his constituents, to tell them this is the way I voted. If they want to make a decision on the next election, that is fine.

Let me ask a question. We are talking about this national debt, and I think people are concerned about it. The question was mentioned by I think Mr. Schatz. Is it about a $16.3 trillion debt on the taxpayers of this country, or 15.3.

Mr. SCHATZ. Fifteen point three.

Mr. HANCOCK. I am assuming that is the total debt at all levels of government, Federal, State, and local. These are contingent liabilities. Or are these actually net instruments? Are we talking about the potential contingent liabilities, like for instance the Federal employee pension plan, or another bailout of a savings and loan?

Mr. SCHATZ. It is my understanding the number includes those liabilities, yes.

Mr. HANCOCK. Well, I frankly don't think so either.

Mr. SCHATZ. That is just that area.

Mr. HANCOCK. Let me ask the panel this question. Have you ever run a study or run up some figures on the amount of personal income that is consumed by all our borrowing. What is the amount of money that the government goes into debt during the fiscal year?

Mr. TURE. You can get a simple grab at that, Mr. Hancock, by saying what is the aggregate amount of Federal outlays which have to either be financed by taxes or by——

Mr. HANCOCK. I am talking about at all levels. I am talking about at all levels of government—the new school budgets, et cetera.

Mr. TURE. Thirty-three point three or 35 percent. Maybe one of the staff has a closer number than that.

Mr. MERSKI. The problem there is a timing problem, because the debt is paid off by future generations. Your great-grandchildren will be paying it off. You can't even get an immediate year's tax burden for the debt we have run up already.

Mr. HANCOCK. I ran up some figures the other day. As a businessman or an individual, if you get x number of dollars, you get $10,000 a year coming. If you borrow $5,000 and spend $15,000, and that is the amount of money—you went $5,000 in debt, but that is the amount of money you spent for the year.

I ran some figures the other day, and I would like to get Citizens for a Sound Economy to run this. Based on the figures I ran, right now the cost of operating the government is someplace between 70 and 74 percent of annual personal income.

Now, that is scary. That is scary. We cannot continue to do that.

We are looking at the Federal national debt, you know, the national debt. Almost every local government is going in debt.

Now, State governments have a balanced budget amendment, most of them. They require a balanced budget in 47 states. However, they are getting around it by issuing bonds and loaning money and one thing and another. They claim they are not really going into debt, that they are borrowing money, and are going to loan it to this guy, and thus will pay it back.

These are according to what I have been able to get out of the statistical abstracts. That is scary. There is no way we can continue to operate on that basis very much longer.

This bill that Congressman Walker has proposed is an effort to at least give some people the opportunity to have a voice in how that money is being spent. I am not going to say it will work and I am not going to say it is a panacea. But I think this: I think that we might be surprised if we would give the American public the opportunity to say, I want 10 percent to go to the national debt. I think we would find that a lot of the votes up here in the United States Congress on spending bills would change substantially.

Here again, I think that that—the voice of those people I think will be heard loud and clear.

Chairman RANGEL. Can we put that on a ballot, maybe like a referendum, and ask them, regardless of what their income is, what they want us to do when they vote for us, just as a separate issue?

Mr. HANCOCK. I think you can get the referendum if in fact you are telling the truth when you run for office.

Chairman RANGEL. I am talking about the voter, who has an opportunity on the ballot box to say, you know, decrease taxes, cut spending, reduce the deficit.

Mr. HANCOCK. And in fact, Mr. Chairman, back in 1980, I introduced an amendment in the State of Missouri which we did by referendum petition, which was a constitutional tax and spending limitation. We did it without any money. All forces of government—I mean, all of them, the school teachers, the elected officials, everybody fought us. They spent hundreds of thousands of dollars fighting us. We spent three years, spent $150,000, got and over a half million people. We passed the amendment. It is now part of the constitution.

Now, my elected officials in Missouri, my home State have decided they didn't like it. So they have pulled all kinds of little deals. Now we are coming back with what is called Hancock 2. In November of 1994, I will really be able to answer your question, because in November of 1994, at least the people in the State of Missouri are going to have a decision on whether there will be any tax increase in the State of Missouri without their vote.

I think it is time we did it at the Federal level, too.

Chairman RANGEL. Well, let me thank all of you. The record will remain open in case there is additional information you would like to share with us.

The committee will stand adjourned subject to the call of the Chair. Thank you very much.

[Whereupon, at 5:45 p.m., the hearing was adjourned.]

[A submission for the record follows:]

U.S. House of Representatives

COMMITTEE ON THE BUDGET

Washington, DC 20515

November 24, 1993

The Honorable Charles B. Rangel
Chairman
Subcommittee on Select Revenue Measures
Committee on Ways and Means
U.S. House of Representatives
1102 Longworth House Office Building
Washington, D. C. 20515

Dear Mr. Chairman:

Thank you for the opportunity to comment on H.R. 429, the proposal by Congressman Walker to institute a taxpayer "check off" that would trigger automatic reductions in federal spending.

I could discuss all the practical difficulties of this scheme, but the fundamental problem is that, with respect to a basic governmental decision--the level of government spending--it proposes to change the very nature of government in this country from a representative democracy, based on the principle of "one person-one vote," to a plutocracy.

The proposal allows each payer of the individual income tax to earmark as much as 10 percent of his or her income tax liabilities for debt reduction. Each dollar so earmarked would trigger an equivalent automatic, permanent sequestration of all government spending with the exception of Social Security, deposit insurance, and net interest. As CBO Director Reischauer testified before your Subcommittee, "If the top 5 percent of taxpayers (who pay nearly one-half of all individual income taxes) all chose the maximum checkoff, they could generate almost half the possible savings...even if the other 95 percent preferred to maintain or even to increase spending. The latter group would be virtually voiceless in this exercise."

H.R. 429 is profoundly at odds with the letter and the spirit of the U.S. Constitution. I urge you to reject it.

Sincerely,

Marty

MARTIN Olav SABO
Chairman

MOS:cjs

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